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REVIEW OF AIRLINE DEREGULATION AND SUNSET OF THE CIVIL AERONAUTICS BOARD (Essential Air Service Program and Small Community Air Service)

(98-34)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST AND SECOND SESSIONS

AUGUST 16, 1983, AT MODESTO, CALIF.; JANUARY 31 AND FEBRUARY 1, 1984, AT WASHINGTON, D.C.

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REVIEW OF AIRLINE DEREGULATION AND SUNSET OF THE CIVIL AERONAUTICS BOARD

(Essential Air Service Program and Small Community Air Service)

TUESDAY, AUGUST 16, 1983

House of Representatives,
Subcommittee on Aviation,
Committee on Public Works and Transportation,
Modesto, Calif.

The committee met at 10:05 a.m. in the city council chambers, city hall, Hon. Norman Mineta (chairman of the subcommittee) presiding.

Present: Representatives Norman Mineta and Tony Coelho.

Professional staff present: Paul Schoellhamer and David Traynham.

Mr. Mineta. The subcommittee will please come to order.

The Aviation Subcommittee is in the midst of several hearings, examining the major issues surrounding airline deregulation. One of these issues is small community service and it is that issue that brings us to Modesto today. In the 1978 Airline Deregulation Act, Congress guaranteed essential air service to a group of communities. Several points about that guarantee should be emphasized.

First, it was the first time that there had been such a guarantee. Before deregulation many communities had lost service entirely and had no recourse. After deregulation none of the guaranteed communities has lost scheduled service entirely, although some have suffered declines and disruptions in service. But the withdrawal of air service from small communities did not begin with deregulation; it was a preexisting trend, having its roots in the shift of regional carriers to jet aircraft and to the economics of these aircraft.

Second, the guarantee was given to a specified class of communities without regard to whether each individual community could sustain air service at a reasonable rate of subsidy or whether it had realistic prospects for eventually sustaining air service without subsidy. Not surprisingly, the guarantee has been very difficult and sometimes very expensive to maintain at some points. The class of communities is all those who, in 1978, were either receiving certificated service or who were on a certificate but whose service was suspended. That included over 700 communities.

Third, the guarantee is backed up by a Federal subsidy to the extent necessary to meet the guarantee. There are roughly 150 communities receiving subsidized service under the program, and the subsidies are paid by all taxpayers nationwide. And this has created a natural tension between the program or within the program between those who believe others should pay more to subsidize even better air service at their community and those who wonder why they should have to pay to subsidize service to communities beyond what those communities will support with their business. The present balance in that tension is that the program is running at about $40 to $50 million in Federal subsidy per year. The fact is, however, that while Congress can legislate an air service guarantee, it cannot by act of Congress prevent the business failure of some airlines. It cannot prevent bad decisionmaking by some airline managers and investors, and it cannot require people to use the air service that has been guaranteed.

In short, there are a number of real world problems between the statutory guarantee and successful air service at a given community. It has been left to the Civil Aeronautics Board, the communities, and the carriers to try to solve these problems and give real world meaning to that guarantee, which is no easy task.

In reviewing small community service and the essential air service program, the subcommittee wants to start with a closeup look at the community level. We will take a nationwide look at these issues and hearings later this fall. We selected California's central Valley for that closeup look because this valley has been a microcosm of the program and its problems. You've had the initial transition problems when carriers were not fully monitored to see that they were delivering the service that they had promised. You've had the relatively unique problem of an overcapitalized carrier who came in and crowded out most other carriers, only to become the largest commuter airline failure in history. You've had, and are having, the more common problem of undercapitalized carriers who just didn't have the deep pockets to survive recessions and other temporary adversities. And, most importantly, you are having enduring problems with carrier reliability. If a carrier is not reliable, passengers and agents will not book on it. The result is more and more subsidy for less and less usable air transportation. Frankly, I can honestly say that I sympathize with your complaints about reliability. I booked myself on the Inland Empire Airline flight last night from San Francisco to Modesto. The flight is in the public schedule, but the reality is that it is not being flown; so, I ended up renting a car and driving over last night from San Jose. Now, if I can't get a refund on my air ticket, that will be a loss out of my own pocket. But it certainly explained to me why virtually no one has enough faith in that schedule to book a flight. What kind of a buy are we getting by subsidizing that kind of service is definitely a question that we will be asking today.

In short, nowhere is the gap between the guarantee and the reality so evident as it is here in the Central Valley area, and no one has more consistently brought those special problems to our attention and to the attention of the CAB than Congressman Tony Coelho. He has kept the focus on this area and on the special efforts necessary if the essential air service guarantee is to have any meaning in the Central Valley. He has done an outstanding job of keeping everybody's feet to the fire, including my own, and keeping us focused on your problems. So, given all of his good work, it's no surprise that we have chosen to begin our review of small community air service here in Modesto.

And I am pleased to have come forward for his statement at this point your Congressman, Hon. Tony Coelho.

Tony, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF HON. TONY COELHO

Mr. Chairman, it is a pleasure for me to welcome you to Modesto and the San Joaquin Valley today. The topic of today's hearings—Essential Air Service—is one which is of great interest to our communities, because, frankly, we have had more than our share of troubles with the program. I have been assured by everyone at the Civil Aeronautics Board, from Chairman McKinnon on down, that the problems we have had are unique to California in general and the Valley in particular. While I am always quick to point out California's leadership in most things, this is one area where I would just as soon be like the rest of the country.

Since the Airline Deregulation Act of 1978 became law, we have witnessed the pullout of United Airlines from Merced, then Modesto, and we have seen drastically changed service in Fresno. While the CAB has acted within the scope of the law to seek out and designate carriers from Merced and Modesto, I think the Board would readily admit that the EAS program has failed here.

We have had one airline after another, attempting to replace the service United abandoned, go bankrupt or get into severe financial difficulties so that service has been disrupted or reduced. All of the newly-designated EAS carriers have started off well, but something happens to them after that—they begin expanding too fast, their management may have miscalculated their expenses, a recession hits. All of these factors have hurt, not only the airlines attempting to provide service but also the harried Valley air passenger.

When service is unpredictable at best or unreliable at worst, many prospective passengers simply drive to San Francisco and fly from there. Travel agents are understandably reluctant to book their customers on an airline which has a reputation for problems. I'm sure the representatives from Valley cities, in their testimony later, will provide you with statistics to demonstrate how the number of air passenger boardings has declined substantially since United left.

I want to point out, too, that the communities have made a genuine effort to be supportive of "their" airlines. Last year, when Inland Empire was selected as the EAS carrier for Merced's service to Los Angeles and San Francisco, I sponsored a meeting of community and area leaders to help boost the airline and publicize it. I think the community really tried to make it work, but the airline's financial problems discouraged passengers from using the service.

Here in Modesto, too, city officials and business and civic leaders attempted to work with the airlines to develop an overall marketing and sales plan to encourage residents to use "our" airlines, with greater and lesser degrees of success. At present, Pacific Express seems to be doing quite well with its service to Los Angeles. We continue to hope they will succeed and expand their service—but not so rapidly that they hurt their existing markets.

As I indicated, Mr. Chairman, Inland Empire is currently having severe financial problems, so much so that the CAB has relieved them of their responsibility for EAS service in Merced and Visalia. Their service here in Modesto is in question, too. With this likely change, that will make six airlines to serve the cities in less than five years. Little wonder that there is confusion about just who provides what service for prospective air travelers.

I do not have what I would term specific proposals to resolve these problems—I would leave that to your subcommittee, since you are our "experts" in this area. But I would sugget that consideration be given to strengthening that portion of the law dealing with EAS so that the CAB has some authority to prohibit designated carriers from expanding so rapidly that they cannot handle the growth, either financially or with proper and sufficient equipment to do the job.

Further, I would suggest that the scheduled sunset date of the CAB be reviewed, at least as far as the EAS program is concerned, because what was intended to be in place for some ten years prior to expiration has not yet begun to work here—and we are five years into that ten year period. At the rate we are going, the program will have expired and the Board at its last meeting before sunset may be designating yet another carrier for Merced and Modesto. I certainly hope that will not be the case.

Mr. Chairman, when Congress passed the Deregulation Act, it made a commitment to the small and medium-sized communities of this nation that they would not be negatively impacted by the law. Congress has not kept that promise to San Joaquin Valley cities, and I would sincerely hope that we will be able to revise necessary laws to do that.

Again, I welcome you to our Valley. I'm glad you have the opportunity to hear first-hand just what problems we are having, and I'm most appreciative of your efforts in our behalf.

Mr. MINETA. Please proceed.

TESTIMONY OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE 15th DISTRICT OF THE STATE OF CALIFORNIA

Mr. COELHO. Thank you, Mr. Chairman. I would like to personally welcome you to my congressional district and to Modesto for the purpose of these hearings. I appreciate very much your kind remarks, and I am sorry for the experience that you've had to go through to get here, but I am happy——

Mr. MINETA. Let me ask: How did you get last night's flight canceled?

Mr. COELHO. The fact that you've gone through that experience is helpful, though, and for you to firsthand understand the problems that we've been having in both Modesto and Merced. I'm also sorry that your staff member has lost his luggage and has not been able to find it, yet, as a result of the inadequacies of Inland Empire. But, again, as one who was a staff member for 14 years and knows the importance of staff, I'm happy that it happened to him so that he understands the significance of what I have been trying to say over these last few years. But in all sincerity, I welcome all three of you to the valley and appreciate your starting these hearings here.

I would like to have my statement made a part of the record—I will not read it—if there is no objection, and to proceed on with some remarks that I would like to make in general.

We have tried, here in the San Joaquin Valley, to comply with the basic tenets of the essential air service program. Everytime that we've gotten a new airline into the district, we've tried to promote it with the community. We have held meetings, I have sent letters to all business people in the communities of Merced and Modesto every time we had a new one, to ask them to promote with their employees and with their business associates and so forth the importance of maintaining that airline. So, we have tried everything possible to help promote, quote, "our airline," end quote, and have encouraged city officials in both communities to do the same, and they have.

I was told by the chairman of the CAB that the problems that we're having here in the San Joaquin Valley and my particular congressional district are unusual throughout the country. I brag about our district, but I don't particularly like this particular distinction and would hope that we could correct it and we would just become a part of the mainstream.

But I would hope, Mr. Chairman, that as you go through today's hearings you would recognize, as you so ably pointed out, that it is impossible for an airline to be able to provide the service that we want if the travel agents are unwilling to go ahead and put people into those airlines in order to connect up with other airlines. The problem with the agents, of course, is that they don't want to be the ones responsible for missing airlines, missing connections, and so forth, and I cannot blame them. As you know, we have indicated to you that some of the travel agents will not book, and if the client insists that the booking be made they have them sign a waiver of responsibility. I understand the frustration of the travel agents in doing that, but it again promotes the very thing that we can't have and that is that there is no believability in the reliability of that particular airline.

So, we are very frustrated here. I want to assure you in every way that I, as well as the governmental entities here in the San Joaquin Valley, have tried everything possible in order to make it work. It has not worked. Hopefully, with Pacific Express here in Modesto things will turn around now and we will be able to move. I am very optimistic on that. But the particular case of Inland Empire, with subsidies continuing and it not providing the required service, I think is something that your committee needs to address.

Again, I welcome you to the valley, and I appreciate the effort being made by the city officials of both Modesto and Merced and the county officials of both counties, in trying to make this hearing informational for you. Again, thank you very much.

Mr. MINETA. Again, thank you very much, Congressman Coelho.

There's no question that there have been real problems here regarding essential air service. And with every crisis, you've jumped in and made sure that the CAB got here in a hurry and did everything possible to restore service. But we've got a situation now, however, where thanks to the wisdom of the U.S. Senate, the Department of Transportation Appropriations Act provides zero funding for the Civil Aeronautics Board for the months of August and September of 1984, even though the Board would continue to be the only agency with the authority to administer the essential air service program. Obviously, they hoped to be able to come back before then and pass a supplemental appropriations bill to fund that 2-month gap. You and I know that it is very risky to bet that a supplemental bill will be passed by a given date. My worry is that if there is an essential air service problem here in August or September of 1984, there may be no CAB for you to call. There may be no CAB to hold in-service by these carriers or to offer subsidy to new carriers, or whatever it might take. Based on your past experience, is that cause for worry?

Mr. COELHO. Absolutely, Mr. Chairman, because the only way that we have been able to continue the service that we've had has been through the actions of the CAB. And I have to compliment the chairman of the CAB for his readiness to be helpful and his cooperativeness with me. I have been very appreciative of the time that he has personally spent on our situation here.

I am very concerned, as I know you are, at any time that we have a situation where there would be a gap. Because, in effect, what you're doing is you're having inefficient Government; as opposed to saving any money you're going to, in effect, spend a lot more money than it would take if we were to just go ahead and fund it as it should be funded.

One of my major concerns is that when CAB runs out of business in another 5 years or whenever it is, the essential air service program will not be there and we probably won't even be established yet in all of our communities with having essential air service. And I'm one of those who feels that we should extend it even further. So, I am very concerned that the CAB would not be available for a very short period of time or even for the few years that currently remain for the agency.

Mr. MINETA. Maybe you and I can devise some way to get August and September funded as early as possible, so that there is one less uncertainty hanging over these communities' heads.

Well, again, thank you very much, Congressman Coehlo. And we would be pleased if you could join us here as we listen to the balance of the testimony.

Mr. COELHO. Yes.

Mr. MINETA. At this time I would like to call a panel of three very distinguished citizens of this area. Since they will be making statements, if they would all come forward, we will first have the very fine mayor of the city of Modesto, Peggy Mensinger, and to be followed by the Honorable Daniel Terry, chairman of the board of supervisors of Stanislaus County, and Mr. David Kilby of the chamber of commerce here in Modesto.

Mayor Mensinger, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF PEGGY MENSINGER, MAYOR, CITY OF MODESTO

The City of Modesto is pleased to have this opportunity to testify before the Committee in order to express our concerns and describe our experiences as a result of the Airline Deregulation Act of 1978, and more specifically, the essential air service provisions of the Act.

I would like to begin our testimony by reviewing some of the points presented by the City during the hearings conducted by the Sub-Committee on Aviation of the Committee on Public Works and Transportation-House of Representatives that heard testimony on HR 8813 which later was to become the Airline Deregulation Act of 1978.

In our testimony, the Staff stated that some form of regulatory reform of the airlines was needed. We also stated that we were "gravely concerned about several areas in the proposed bill that, in our view, created a condition that might leave Modesto without effective air service."

Before deregulation, United Airlines was providing four flights per day to Modesto, three to San Francisco and one to Los Angeles. Enplanements at that time had been growing steadily and reached a peak of 50,995 passengers. Unfortunately, shortly after the passage of the Airline Deregulation Act of 1978, our concerns became a reality. In June of 1978, shortly before passage of the Act, United terminated direct service to Los Angeles, leaving our community with one early morning and late evening flight, causing enplanements to immediately fall to 45,768 passengers annually. In July of 1979, United Airlines, our CAB certified carrier since 1946, filed a 90-day notice of termination with the CAB to end all service to Modesto.

It should be noted that, at that time, Modesto's emplanements were growing on an average of 20% per year with only two flights per day by United to our major hub of San Francisco.

At the same time United Airlines was preparing to leave Modesto, Air Pacific, a commuter carrier, was attempting to begin air service at Modesto. the City was hopeful that Air Pacific's new 50 passenger DeHaviland DASH-7 would successfully replace United's Boeing 737/727 aircraft in use between Modesto and San Francisco. However, Air Pacific began encountering both financial and managment problems even before United terminated Modesto service.

The City and Chamber of Commerce supported the CAB's decision to designate Air Pacific as the replacement carrier for United. However, it was soon apparent that the public had not accepted Air Pacific because of the type of equipment, poor reliability, higher air fares, frequent change of schedules, and generally poor professionalism in dealing with the public. The financial difficulties encountered by Air Pacific were no doubt the result of the above conditions.

In January of 1980, Golden Gate Airlines acquired Air Pacific. Golden Gate Airlines was found a fit and able replacement for Air Pacific by the CAB. On March 15, 1980, United was allowed to terminate service to Modesto and Golden Gate Airlines became Modesto's EAS carrier to the designated hubs of San Francisco and Los Angeles.

During the next eighteen months, the air service market was all but destroyed by Golden Gate Airlines. Public rejection of the small commuter aircraft plus fourteen schedule changes in the eighteen months, frequent cancellations, and little or no concern for the passengers caused our annual enplanements to drop from 38,236 in 1979 to 29,750 in 1980.

In August of 1981, Golden Gate Airlines terminated all air service when the owner filed bankruptcy. Swift airlines, a subsidiary of Golden Gate Airlines, continued to operate for a time providing air service to Modesto, but they also went bankrupt before the end of September.

On October 1, 1981, Aspen Airways became our fourth airline within eighteen months to provide essential air service and served both the San Francisco and Los Angeles markets. Aspen continued serving both markets until the summer of 1982. At that time, the CAB designated Aspen as our essential air carrier to Los Angeles and Air chaparral as our essential air service carrier to San Francisco. The CAB decision to award our San Francisco EAS to Air Chaparral, using 19-passenger Metro II aircraft, was against the wishes of the community.

Pacific Express, a new jet carrier, entered the Stockton air service market in May of 1982 and Aspen, at the time, was providing the EAS from Stockton to Los Angeles. Aspen determined it could not compete with Pacific Express jet service and terminated service at Stockton. Aspen then requested additional subsidy from the CAB to serve the Modesto market alone. About this same time, Air Chaparral began having financial problems and in February of 1983 filed Chapter 11 bankruptcy for reorganization.

Prior to Air Chaparral's reorganization, the CAB was in the process of awarding them Modesto's EAS to Los Angeles. This action was being taken by the CAB because Aspen had decided to pull out of the west coast market entirely.

A petition by the City to the CAB expressing our concerns about Air Chaparral's ability to provide EAS service to Los Angeles prompted an audit of Air Chaparral. As a result of the audit, the Board again solicited for new proposals to provide Modesto's essential air service to Los Angeles.

In April of this year, Pacific Express, Inc., entered the Modesto market using a 78-passenger BAC 1-11 aircraft without subsidy. They have now been designated as EAS carrier by the CAB over several other applicants. This latest action by the CAB seems to be working.

In a little over three years and six airlines later, we now have a pure jet airline service back and have hopes of restoring the market that the four bankrupt commuters destroyed. Our enplanements dropped from a peak of 57,000 in 1977 to just over 21,000 in 1982 as a result of deregulation. With jet service back, enplanements are on the increase. We are trying to regain the confidence of travel agents, which, I feel, is crucial to the success of our essential air service carriers. In the past there has been little or no marketing done by our replacement carriers, which has damaged the confidence of the travel agents.

The airlines, especially those that failed, will blame the economy, rise in fuel costs, and the PATCO strike for the drop in passenger enplanements. However, it would take a book to tell the many horror stories experienced by our air travelers. Again, it boils down to several factors, not the least of which is the small type of commuter aircraft used to provide service.

This is verified by the fact that since Pacific Express, Inc., has brought back pure jet service, the Los Angeles market has already begun to grow and is rapidly reaching 1977 enplanement figures. On July 1, Pacific Express began nonsubsidized service to San Francisco, and we feel that this will restore that market that feel from 40,000 annual enplanments to less than 10,000.

Deregulation was not all bad in the sense that it did create a free marketplace for the airlines and did promote lower fares in many long haul markets, but it was disaster to the many mid-sized communities with short haul markets such as Modesto.

The essential air service program was designed to address the transitional needs of the smaller communities that lost scheduled air service. We now find there were many deficiencies in the program. I will attempt to summarize a few that we experienced in Modesto.

1. Four of the six commuters designated by the CAB as our essential air service carriers went bankrupt even though they were found fit and able by the CAB's staff.

2. Section 419 subsidy funds given to the carriers to provide EAS are not always spent in that community. Of the last six EAS carriers given Section 419 funds for this community, only Pacific Express has done any appreciable amount of marketing.

3. The commuters have historically beeen delinquent in paying rental payments to the Airport. With the exception of Aspen and Pacific Express, the four that went banbkrupt left owing money to the City, as well as local businesses.

4. service patterns and type of equipment provided by the EAS carriers receiving Section 419 funds were not always timed well nor large enough to meet the community's needs. The minimum of 2 round trips and 80 seats per day maximum subsidized service will never be enough to develop a market that has lost large air carrier jet service, especially when replaced by small 19-passenger turboprop aircraft.

5. There should be more community involvement in the carrier selection process and specifically during the rate conferences. This would allow the local community to know what the airline has promised and how it intends to serve the community. Many times the carrier has not even contacted the City they intend to service and have no idea of airport rental costs.

6. Provide the CAB, especially the regional Small Community Air Service offices, with more staff to monitor the day-to-day operations of EAS carriers in order to recognize problems before they develop. In many cases, once the carrier is awarded subsidy, little or no monitoring of either the quality or quantity of service is done.

7. Congress should consider extension of the essential air service program beyond 1988 to insure ample time for the small community air service programs to recover.

8. Because of the disparity between the cost of air fares between the long haul and the short haul markets, Congress should place a maximum differential between air fares. It is quite obvious that in many cases, the short haul markets with little or no competition are subsidizing the long haul markets.

In conclusion, you can see that Modesto has suffered under deregulation and changes are needed.

Mr. MINETA. Please proceed.

TESTIMONY OF HON. PEGGY MENSINGER, MAYOR, CITY OF MODESTO, ACCOMPANIED BY HON. DANIEL TERRY, CHAIRMAN, BOARD OF SUPERVISORS, STANISLAUS COUNTY, AND DAVID KILBY, CHAMBER OF COMMERCE, CITY OF MODESTO

Ms. MENSINGER. Thank you, Mr. Chairman. And first, on behalf of the city fathers and mothers of Modesto, I want to extend our greeting to all of you who are here today, because we really appreciate this opportunity to have you experience firsthand the air service problems that we are living with. And we are particularly grateful that you are doing this in Modesto and making it most convenient for us to participate.

I am going to go a little bit into ancient history and talk about prior to deregulation, when our staff did testify at the hearings when that bill was being considered. And at that time our staff said that they were greatly concerned about several areas in the proposed bill that create a condition that might leave Modesto without effective air service. They proved to have a very clear vision of the future, unfortunately.

And let me say that, having grown up in Modesto and spent most of my life here, we experienced, really, excellent air service after World War II when United Air Lines came in here. We were accustomed to flights to Los Angeles and flights to San Francisco and excellent connections, and we took it for granted. And, in fact, before deregulation we had four flights a day, three to San Francisco and one to Los Angeles, and enplanements had reached a level of 50,000 passengers. But then everything began to fall apart with the approach of deregulation, and then the reality of deregulation. First of all, United dropped the service to Los Angeles and enplanements, so to speak, began to decline. Then, in 1979, United Air Lines informed us that they were going to pull out all service. And up to that point our enplanements had been growing at about 20 percent per year, even with just two flights a day to San Francisco, which was our major hub.

About this time Air Pacific, a commuter carrier, began service here. We hoped that their equipment, which was 50-passenger planes, would successfully replace United's Boeing 737's and 727's, which our clientele here had become accustomed to. Air Pacific began encountering both financial and management problems even before United left. And, so, while the city and the Chamber of Commerce supported the CAB's decision to designate Air Pacific as a replacement carrier, we did have concerns with the equipment, the lack of reliability, the higher fares, the frequent change of schedules, and the generally poor professionalism in dealing with the public. And. indeed, Air Pacific did have financial difficulties as a result of these problems. As you know Golden Gate Airlines acquired Air Pacific in 1980, and it was found that Golden Gate Airlines was a fit and able replacement for Air Pacific.

So, in March 1980, just a little over 3 years ago, United was allowed to terminate service to Modesto and Golden Gate Airlines became our essential air service carrier, both to San Francisco and Los Angeles. In the next 18 months our air service was all but destroyed. The public simply would not accept small commuter aircraft. We had 14 scheduled changes in 18 months, frequent cancellations, and little or no concern for passengers. And I am sure that you are familiar with some of the problems that persist today in our service to San Francisco. As a result passenger usage declined sharply, and in 1980 we are down to less than 30,000. Then Golden Gate Airlines filed for bankruptcy, terminated all service. Swift Airlines, a subsidiary, operated for a little time, but they also went bankrupt before the end of September. Then, of course, Aspen came in, our fourth airline in 18 months, and they served both the San Francisco and Los Angeles markets. But when the CAB designated Aspen as our essential air carrier to Los Angeles but Air Chaparral as the essential carrier to San Francisco, we got into another set of problems, because Air Chaparral used 19-passenger aircraft, which we had campaigned against here. But, nevertheless, that was the decision.

Pacific Express, a new jet carrier, then entered the Stockton air service where Aspen was also providing essential air service from Stockton to Los Angeles. Aspen decided it could not compete with the jet service and terminated flights out of Stockton. Aspen then wanted more subsidy to continue to serve the Modesto market alone. Meanwhile, Air Chaparral was having financial problems and filed under Chapter 11, so the conditions remained very fluid and very disruptive. And we almost were in the position where the CAB awarded our essential air service to Los Angeles to Air Chaparral because Aspen had, meanwhile, made the decision to leave the California market entirely.

I would say that the Aspen service was generally very well received. It was, however, a corporate decision to leave the California market, although they made it clear that they had had excellent support from the community. So, once again we were back looking for essential air carriers; and, in April of this year, Pacific Express entered the Modesto market with their 78-passenger BAC-111 aircraft, without subsidy. Now they are our designated carrier and are receiving subsidy. And I would say that the size of their aircraft and the caliber of their service have produced a rapidly rising usage. And we have figures that are very encouraging in terms of rebuilding the Modesto-to-Los Angeles market.

So, we think we are getting back the confidence of the travel agents in terms of our Modesto-Los Angeles service. Travel agents in general have been skeptical because they've had very little marketing help from the carriers, but Pacific Express has been devoting resources to marketing. I know the airlines have had their problems. And I would think, however, that if there is one single reason most responsible for the decline in enplanements, it comes down to personal experiences by air travelers who, after one or two bad episodes, just will not use the service out of Modesto. I am speaking now of the contrast we see between the rising ridership to Los Angeles with Pacific Express service as contrasted with the declining ridership for Air Chaparral going to San Francisco. In other words, if we are professionally provided, reliably provided, we will have the customers.

Deregulation was not all bad in the sense that it did create a free marketplace for the airlines and did promote lower fares in many long-haul markets, but it was certainly a disaster to communities of the size of Modesto, where there is a relatively short haul involved. And we appreciate that essential air service has been guaranteed, but we would like to make some suggestions to improve and to correct some of the deficiencies that we have certainly experienced here.

Out of the six commuters designated by the Civil Aeronautics Board as our essential air service carriers, four went bankrupt even though they had been found "fit and able" by the Civil Aeronautics Board staff. Clearly, we think that the financial strength of carriers should be examined much more closely.

Second, section 419 subsidy funds given to the carriers to provide essential air service are often not spent in the community where they should be. Out of the last six EAS carriers given subsidies, only Pacific Express has really done a substantial job of marketing.

Third, the commuters have often been delinquent in paying rental payments to the airport. The only exceptions have been Aspen and Pacific Express, who did take care of all their obligations; but the four who went bankrupt left owing money to the city as well as to local business firms.

Fourth, the service patterns and type of equipment provided by the carriers receiving these funds were not always timed well nor large enough to meet the community's needs. And it would seem that if money was being spent, that it ought to buy what really does meet the essential air service of the area for which it is intended. The minimum of two round-trips and 80 seats per day maximum subsidized service will really not develop the kind of market that has lost large-aircarrier jet service; 19-mass-passenger aircraft simply will not be accepted by the public accustomed to jet or cabin-class airplanes.

And I will not repeat your own experience in attempting to get over here from the Bay area, but I think that exemplifies all the four difficulties that I've just reviewed.

Furthermore, as a fifth point, we think there should be more community involvement in the carrier selection process, specifically during the rate conferences, so that we know what claims and commitments the airlines are making. And we often do not have any idea what type of proposition they are making to the Civil Aeronautics Board, although we are most directly affected by it.

Sixth, we would like to see that the Civil Aeronautics Board, especially the regional small community air service offices, would have more staff to monitor the day-to-day operations of these EAS carriers, so that difficulties are spotted before they become insurmountable. It appears that once the subsidy is provided, there is very little followup in being sure that that investment is being used properly.

Seventh, we would like to see Congress consider the extension of the Essential Air Service beyond 1988 to be sure that we do recover from all of the difficulties. In effect, we've really lost several years here because of the lack of reliable service.

And, eight, because of the disparity between the cost of air fares between the long-haul and the short-haul markets, Congress should place a maximum differential between air fares. It appears that in some cases the short-haul markets are, in fact, subsidizing the long-haul markets. We all know that in a deregulated atmosphere where you have heavy competition, there are all kinds of special fares. In situations like Modesto's air service, where there is not competition, we are certainly at a disadvantage.

Personally, I would hope that commuters and major airlines could work together closely on interline fares, so that passengers from places like the Modesto area would not be penalized for using our airport but would, instead, be encouraged as they are now to go to and add to the congestion around some of the metropolitan airports. We have an excellent facility here. All we need is the kind of reliability that will give the travel agents and the customers confidence.

So, we think we have suffered considerably. We would like to see the changes made that I mentioned. And deregulation clearly has had many negatives for us. We urge you to make the needed changes. We think that with the assistance of those changes we can demonstrate clearly that there is a substantial market here in Modesto for air service to both Los Angeles and San Francisco, and that we can have a successful experience.

Thank you again.

Mr. **Mineta**. Very fine. Thank you very much, Mayor Mensinger.

Let me, at this point, call on the Honorable Daniel Terry, chairman of the board of supervisors of Stanislaus County.

I'd like to also remind those who testify to please remain after the panel has completed so that you might be able to respond to some questions that we might have.

Mr. **Terry**. As long as they're not too tough, I'll stick around, Congressman.

On behalf of the board of supervisors, Congressman Mineta and Congressman Coelho, we'd like to welcome you to Stanislaus County and thank you for the opportunity to tell you about this county's experience with the deregulation of the airline industry. Obviously, our representative, Congressman Coelho, has made you mindful of the problems that have existed in the past in Stanislaus County, and I think many of them have already been pointed out by Tony and Mayor Mensinger. I would like to bring to your attention a few other areas.

Our overall experience since 1979 has not been a good one. The net effect, in my opinion, has been no adequate air service since 1979. We've had six different carriers; four have gone bankrupt. And, most importantly, this track record has led to this atmosphere of skepticism, that you mentioned before, within the community. As a matter of fact, it was well known for quite a long while, travel agents in Stanislaus County refused to book flights into the hub areas. The statistics, perhaps, in this case might tell the story best.

Prior to United Air Lines leaving in 1979, enplanements were growing at an average of 20 percent a year. In 1979, the annual enplanements were 38,000. If you assume that we could have sustained that growth rate—and I would think that that is a reasonable assumption to make—enplanements in 1982 should have been in the neighborhood of 65,000; instead, they were just over 21,982. This experience tells us that the EAS program has not been successful in meeting the needs of the smaller communities' loss of scheduled air service. Rather than dwell any further on the failures over the last 4 years, I would like to make the following suggestions that you might consider in further deliberations on this important public policy issue.

One, when the CAB is considering an application for providing essential air service, we believe they should place greater emphasis on the level of service to be provided. The existing minimums of two round trips and 80 seats each day are not adequate to meet the needs of this county. The proof, obviously, is in the declining enplanements.

Two, a new carrier needs to demonstrate its ability to attract the attention of the community. Past carriers have done little in marketing their product. Without an aggressive marketing effort backed up by delivering what is promised, no carrier is going to make it here with the subsidy or without a subsidy. It is interesting to note that of the previous air carriers I mentioned that failed, they all had subsidies.

Three, the Civil Aeronautics Board should involve the local community more extensively. Only in this way will they be better able to evaluate a carrier's ability to respond to my first two points.

Four, provide the CAB with the resources necessary to insure accountability and performance of carriers receiving subsidy to the essential air service program.

Five—and it was mentioned by Mayor Mensinger—the issue of the short-haul, noncompetitive market being used to subsidize the highly competitive long-haul market must be resolved.

These are just a few suggestions that I'm sure you have already considered. However, they are important ones, and you have our support in pursuing them.

I would like to finish my comments on a positive note and thank the Civil Aeronautics Board for allowing jet service into Modesto through the essential air service program. Our current carrier, Pacific Express, has been doing an excellent job: They've been marketing their product, they've been reliable; and the community is starting to respond in a positive manner. I feel certain, personally, because, being in public life, I've known Congressman Coelho for many years and I feel certain that there's good reason that we were the first community that was picked in this experiment. I know Tony's reputation, I know how well he represents his constituency in this area; so, it is no surprise to me that we were the chosen ones in being the first to receive subsidized jet service. But I think we have to go beyond that and think about the areas that are not blessed with that kind of a representative. I think we have to be mindful of their problems and what they expect in regard to EAS in the future.

It would seem to me that the systems that were put in place prior to Pacific Express were designed to fail; and, surely, they did. We believe that what has been done with Pacific Express has been designed to succeed and we are hopeful in this community that they will.

I thank you very much, Congressman.

Mr. MINETA. Thank you very much, Chairman Terry.

Next, Mr. David Kilby of the Chamber of Commerce here in Modesto.

Mr. KILBY. I would be remiss if I, too, didn't give you, I guess, the fourth welcome from Modesto. I think that's something that's expected from the Chamber of Commerce. And we welcome the committee. I'm very glad that you selected Modesto to hold this hearing.

We bill Modesto as "on the way wherever you go," Congressman. I think you expressed already that it may not be that easy to get here. And you've highlighted one of the problems in our area, and that is our air service, that we've expressed the last few years. Mayor Mensinger and Supervisor Terry have already outlined the background and historical data that we feel is essential to understand the effects of airline deregulation on the Modesto area. As pointed out by the mayor, the chamber has been a long-time partner of the city and county in a joint effort to improve our commercial air service. And we echo many of the concerns that she and Supervisor Terry have already expressed.

Over the last few years, the seemingly never-ending turnover in air carriers and their myriad of schedule changes have practically destroyed our market. It's only during the last few months Modesto and the surrounding communities have received the type of air service, especially to Los Angeles, that we need, deserve, and desire. Good, reliable, dependable air service is important to the economic growth and prosperity of the community. And we are convinced that air service to and from Los Angeles and San Francisco is important to attract new employers to the area.

I don't know, Congressman, if you have seen our unemployment rate, but with a 20-percent unemployment rate plus for all of 1983 to date, attracting jobs to the area is a number one priority of our community. And air service is an important factor in attracting new industry and jobs to the area.

It is only recently that our local aviation picture has begun to resemble anything close to adequate, stable, and reliable service that one could honestly call an aid to this economic development effort of ours. We can only base our comments on our local experiences, but it does appear there are some major flaws in the Airline Deregulation Act and its enforcement and management by the CAB. While deregulation did create a free marketplace for airlines, the needs of many mid-size and small communities were ignored as decisions regarding when and where to schedule flights were made with little or no concern for the public interest.

We respectfully suggest that the selection process and monitoring procedures for essential air service carriers be reviewed. Four CAB-declared "fit and able" airlines that were assigned to our community have gone bankrupt during the last few years, again, as I've already stated, nearly destroying our market.

Our task is not an easy one, but somehow we need to assure that the needs and the best interests of all the people are served. To aid in this endeavor, we respectfully suggest higher selection standards for essential air carriers, increased community input during the selection process and rate hearings, and continued review of essential air service by Congress.

We really thank you for the opportunity of appearing before you today. This is an important issue for our community. I think all the other communities that are here today thank you for coming to Modesto.

Mr. MINETA. Thank you, Mr. Kilby.

And while you are here at the microphone, let me start off the questioning with you and ask: What kind of efforts have you undertaken as the chamber to improve commercial air service here? Is there an educational program with the travel agents, are you trying to entice other air carriers? What kind of promotional efforts have you been doing?

Mr. KILBY. We have done all of those in conjunction with the city and county. I think it almost got to the point that we were afraid to do that. We had a reception, if you want to call it that, for representatives of, I believe it was, Golden Gate Airlines a couple of years back. And with most of the travel agents and not just Modesto, but the Stanislaus County and even outside of the county area in attendance, members of our aviation committee, elected officials. And 2 days later Golden Gate Airlines withdrew from the market. And we have had several meetings with travel agents, urging them to fly Modesto. We have had receptions for almost every airline that has come into the area. We've worked very closely with them on mailers to travel agents, constantly promoting the use of our local airport in our newsletter. I think there has been a joint effort of the chamber and of the city and the county to work with all of the airlines and really educate the public to fly our area. That has been very difficult in the last few years with the reliability factor that has already been expressed, but we still are in there pitching and we will continue to get in there and pitch and try to put the airlines and the travel agents together. We think that is a link that unless that bond is close and the confidence is there on the part of the travel agents to book those flights, that there is really no chance for our boardings to continue to increase.

Mr. Coelho. Would the gentleman yield?

Mr. Mineta. Surely.

Mr. Coelho. I also would like to point out that in cooperation with the chamber we sent a letter to all of the businesses in the area, as I indicated earlier, encouraging them to participate, and promote, and so forth. We have tried everything possible. And I agree with Dave's comment, that it got to a point, though, that you kept on promoting a new one and your credibility in promoting became rather small, so that after a while you didn't want to put your name and reputation out there and say, "Oh, no, this is serious, this is the one, this the one we are really going to promote," and then have it go bankrupt immediately thereafter.

So, you're at the point, Mr. Chairman, where the promotion of local service, at least in our area, has gotten to be somewhat of a credibility factor. And unless we can get an airline in here that has the ability to promote itself, and to do it by being on time and responsible, and so forth, we can't do it any other way. That is the only way it can be done now.

Mr. Mineta. Thank you very much.

Mayor Mensinger, is the city of Modesto engaged in any effort to market that air service to the traveling public as well as to travel agents? And, again, hearing what we have about this whole issue of reliability, is there an investment that is being made here and are we seeing some success from that experiment?

Do you think we should make it mandatory for all local communities to be involved in some kind of marketing effort in order to receive essential air service subsidy?

Ms. Mensinger. My own reaction is that we would certainly be pleased to do anything that we could as long as we could be assured that the carrier meets our specifications and our needs, and then we could market it successfully and that it will be held to a performance standard.

Currently, with the problems of Inland with which you are fully familiar, we have complained to the Civil Aeronautics Board that they are not meeting their contracted obligations and yet they are continuing to receive the subsidy. The result is that the money is being wasted, service is not being provided, and the public is losing all its confidence as far as flying from San Francisco to Modesto. So, I see the primary government role, both at the local level and the Federal level, to make sure that the carriers are capable, that they are providing the kind of service that is needed, and that they perform; and if they don't perform, they don't get the money. I think that's really crucial.

Mr. Mineta. If I might at that point, followup and ask: Where you mentioned in your testimony that more service and larger airplanes are necessary, what exactly should we require of the Civil Aeronautics Board as they subsidize carriers? What should we require them to provide to a community and how much of that should be borne by the taxpayers?

Ms. **Mensinger**. We hope that we can achieve a situation here, if we get the right kind of service, where we will certainly not require an endless subsidy. I understand that Pacific Express had a recent flight from Los Angeles that was full beyond capacity, and they actually had to try to buy some passengers off of it because they were oversold. That, I think, would be the result. That indicates, I think, the result of effective marketing and adequate equipment. So, I don't think the subsidy should be counted on forever, and I don't think the subsidy should be used as a crutch to support airlines that don't have the financial stability to survive. That is why I think it is important that their financial condition be subject to very close scrutiny, just as we at the local level, I think, have to be realistic about the level of passenger loadings that we think we can provide and have the right kind of equipment to do that.

I think between Modesto and Los Angeles we have demonstrated that a jet plane of 78 passengers is minimal, because they actually are overloaded, apparently, on an occasional flight. But between here and San Francisco, they're really losing it, unless and until we get bigger planes and reliable service. And then I think we will show that there are many people who would rather fly out of Modesto to make connections in San Francisco or the Bay area than to fight the problems of traffic in that area, and the costs of parking, and all the rest that goes with it. But I think there is a joint responsibility between—and that is what we are asking for—that local government really be consulted and be part of the commitment.

Mr. **Mineta**. Let me just turn to the Modesto San Francisco market.

It is my understanding that there is, now, a van service between Modesto and San Francisco, and when many people in Modesto go to a travel agent to book air transportation to wherever they are going, they often end up being booked on the van to San Francisco and then on a flight from San Francisco to wherever their destination might be; is that correct?

Ms. **Mensinger**. Yes. On my last trip East to meetings, when I came back I chose the ground option because I knew they would be there when I arrived fairly late at night from the east coast; and I did not have that confidence in the air travel.

Mr. **Mineta**. And at what point should we say that the people's needs to get from Modesto to San Francisco are being met by other methods and we really should not keep pouring money into an essential air service subsidy, into a route, when people prefer other modes of travel? And, as you point out, it may not be a preference, it may just be a necessity.

Should San Francisco cease to be an EAS-designated hub for Modesto?

Ms. **Mensinger**. No, indeed. I think that we need that service to San Francisco, and I spent many years in Modesto just assuming it would always be there. And it wasn't until deregulation that we discovered that it was at risk.

I think there is a place for ground transportation; obviously, some people prefer it and in certain situations it has advantages, but there also is clearly a place for air connections to San Francisco. With the ground you have to leave at 5:30 in the morning and it is a 2-hour trip. So, if we had a flight to San Francisco that left a little later in the morning and made the right connections with the long-range flights, and was not priced so far higher than the ground transportation as to make that a significant factor, then I think that we could have both. I would like to see both services available to all people, and I think both services would prosper. There are just an awful lot of people driving needlessly to the Bay area who are using neither of the public transportation services.

I think if you'll give us an airline that will provide reliable service and good equipment to San Francisco, I think we will show you there are people who will use it.

Mr. MINETA. Mr. Coelho?

Mr. COELHO. Thank you, Mr. Chairman.

Mayor, there is another question here, I think, also: Do you feel, as the chamber representative indicated, that having essential air service, or having adequate air service, is also important for the development of a community?

Ms. MENSINGER. Oh, yes. Clearly, if you are perceived as not having air service, it is a handicap in terms of economic development. And we have some very significant projects underway now, particularly downtown where it is most important to us to be viewed as having adequate air connections both with Los Angeles and San Francisco. So, there are certainly very sound economic reasons.

Mr. COELHO. One of my concerns, basically, is that some of your larger businesses here in Modesto, such as Gallo, which has people come in from all over the world to visit facilities or to talk about a product, and so forth, will question whether or not they can afford to remain in a community like this, without adequate air service.

Also, in Merced you have a situation where there is Castle Air Force Base, and people then will start to question whether or not they can keep Castle in an area where there is not adequate service. So, I am concerned that we're talking about something bigger than just whether or not it is convenient.

Ms. MENSINGER. Yes; we know there are government offices, there are private firms, who have, indeed, expressed reservations about the fact that the air service is not what it should be; because it is, I am sure, close to the top of the list when businesses evaluate locations.

Mr. COELHO. For the record, Mr. Chairman, I would like to also state that the city of Modesto has the third highest unemployment rate in the Nation. We are a little over 20 percent. And this is the type of thing that does not help us out as we're trying to attract new business to the community and trying to put people to work.

Thank you.

Mr. MINETA. Madam Mayor, let me ask, finally: Given the unreliability problems and low enplanement rate for the Modesto-San Francisco service, should the CAB immediately solicit new proposals from carriers for service on that route?

Ms. MENSINGER. Yes; in our opinion they should, before we suffer further losses in terms of support and the Treasury suffers further losses in really wasted subsidy.

Mr. MINETA. Very well, Mayor. Thank you.

Any further questions?

If not, let me thank you, Madam Mayor, Mr. Terry, and Mr. Kilby for your testimony this morning and for the hospitality of the city of Modesto.

Our next panel consists of the mayor of the city of Merced, the Honorable Carol Gabriault, and Mr. Rex Vaughn, the chairman of the Merced Airport Authority.

Madam Mayor, we're glad to have you here.

The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF CAROL GABRIAULT, MAYOR OF MERCED

BACKGROUND

During United Airline's last year of operation at Merced, California that carrier enplaned and deplaned a total of approximately 39,000 passengers. The City's population in 1978 at the time of the Airline Deregulation Act was implemented totalled 33,100. Today the City of Merced's population stands at 43,096. Castle Air Force Base, a major user of commercial air service, has maintained a base population of more than 5,000 representing a population increase of 25 percent in less than five years. In contrast to the significant increase in population, enplanements/deplanements have regressed from some 39,000 to today's figure of 13,545. (See Attachment "A".)

In the case of Merced an essential air service determination was issued in Order No. 80-4-92, April of 1980. Subsequently, the determination was amended in 1982. The determination at that time was that Merced would receive a minimum of two roundtrip flights to Los Angeles and San Francisco on weekdays and over the weekend providing a total of 44 inbound and 44 outbound seats per service day. The City had no quarrel with this determination.

DISCUSSION

With the implementation of the Deregulation Act the anticipated abandonment of small communities by larger carriers became a reality.

The Civil Aeronautics Board, with its limited field staff attempted to develop a selection process of replacement carriers to the small communities. Since time was of the essence, it became a "scramble"' to fulfill those requirements for essential air service created by the vacation of communities by the larger carriers. The ensuing saga in the case of Merced, and I'm sure of the other San Joaquin Valley communities, resulting from the transition from larger carriers to smaller regional carriers contained a common denominator: unreliable air service, frequent schedule changes and fare increases.

Reflection of what really happened, United Airline terminated LAX/MCE service in June 1978. Service to San Francisco was continued until April 1979. UAL local management agreed that with deregulation the service from Merced to san Francisco was to be shortlived and, as a result, was erratic.

Following United Airline's departure the selection process for a replacement carrier in accordance with the Deregulation Act was placed in effect. It became obvious to the recipient that any group or organization with a few aircraft and minimal operating capital could qualify as a replacement for UAL.

As a result the City of Merced had the pleasure of sponsoring four regional carriers certified by the CAB as being capable of fulfilling the essential air service requirements as set forth by the CAB.

What really happened: The first selectee was Gem State Airline, DBA Air Pacific. The second carrier capable of meeting the EAS requirement was Golden Gate Airline. The third carrier to fill the gap was Swift Air. And the fourth, Inland Empire Airline—perhaps the most inept at providing the minimal degree of air service—compounded an already aggravated customer service problem that, as of this date, has regressed to a point where the average air traveller will have absolutely nothing to do with the present airline service.

This problem is compounded by the fact that none of the six travel agencies within the City will write a ticket on Inland Empire Airline.

CAUSATIVE FACTORS

Each candidate assured the City that the airline would join with the City in an aggressive advertising campaign to introduce the air traveller with that particular airline. Without exception, the City carried out its end. With few exception, the air carriers expended little monetary and virtually no physical effort to sell its product. Again, with few exceptions key managment, when confronted with ensuing managerial problems (i.e., scheduling, cancellations, late takeoffs, lost baggage) rarely responded. This philosophy was peculiar to all past four carriers servicing Merced.

In the case of Inland Empire Airline, this City has not seen hide nor hair of our top managment officers since the initial operation of the airline. The frustrations of frequent changes, cancellations, etc., became apparent in the day-to-day confrontations with potential air passengers.

Castle Air Force Base passengers, who comprise some 60 percent of the air passenger enplanements, have virtually discontinued selling space on Inland Empire Airline and are bussing their personnel to San Francisco, some distance of 220 miles roundtrip.

The problems inherent in Inland Empire Airline's operation: questionable top management, exessive baggage losses, late take-offs and cancellations, paralled those problems that existed in all the previous air carrier operations. Each air carrier that was permitted to serve the Valley (although acknowledging the reasons for other carriers' failures) immediately embarked on an expansion program rather than concentrating their efforts on those cities where subsidies had been awarded. In a matter of a few months the carrier, being underfunded and operating with less than an adequate number of aircraft, started changing schedules, shifting aircraft, et cetera, all of which caused the air traveller to become completely disenchanted with the company's operation. This same demise befell Golden Gate as well as Inland Empire Airline.

The City of Merced, at a special meeting with Air Chaparral key staff, chaired by the Honorable Tony Coelho, developed a promotional program designed to "sell" Inland Empire Airline to the greater Merced area. This meeting took place some 12 months ago and to this date, the City has not had the pleasure of any visitation by either Air Chaparral or Inland Empire top management. The City of Merced has requested that Inland's representatives join the City staff in an attempt to ensure the general public that fast deteriorating service of Inland Empire could to be turned around. The response was negative, as was the case with Golden Gate Airline.

CONCLUSIONS/RECOMMENDATIONS

It can be concluded that the CAB response in attempting to guarantee air service as required by the Act, has been timely although less than effective. The Civil Aeronautics Board in its concerted attempt to meet the public entity's air service needs has offered proposals, in most cases, less than well qualified to enter the commercial aviation market.

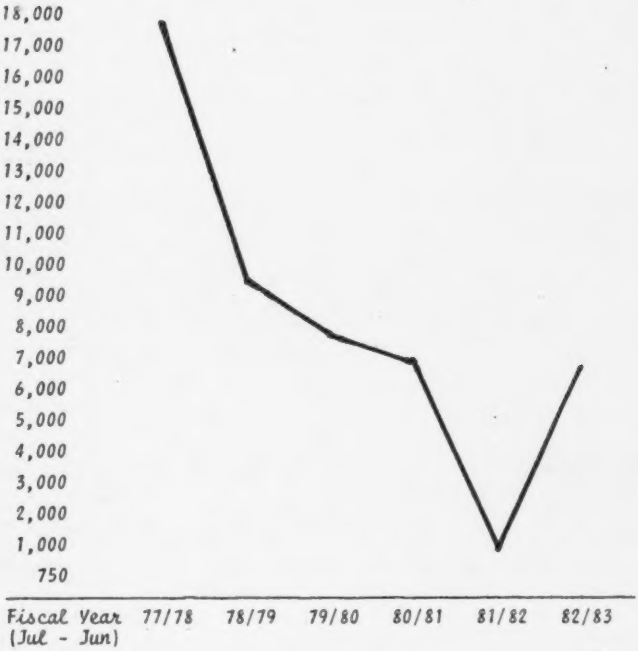
It is suggested that those nominees for replacement air service make available to the Civil Aeronautics Board and the city to be served a complete exposure of the firm's top management qualifications, current and past track record, past service history, and most importantly, the proposed airline's true financial status.

The bulk of the applicants submitting proposals to provide essential air service to Merced either had no equipment, financing or limited equipment (one or two aircraft), limited managerial experience in the commercial aviation arena or marginal track records which ultimately terminated in bankruptcy.

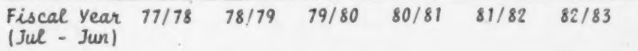
It is further recommended that the CAB or a similar instrument be continued indefinitely. Transferring the CAB functions to the DOT or another similar agency would be catastrophic. Past experience with DOT agencies, UMTA, FAA, et cetera, are "wrapped around the axle" with bureaucratic red tape whereby there is no avenue for these agencies providing the user with timely decisions and/or support.

MERCED MUNICIPAL AIRPORT

SIX-YEAR ENPLANEMENT RECORD



SIX-YEAR RECORD
TOTAL PASSENGERS
ENPLANED & DEPLANED



LEGEND

FY	Enplanements	Total On/Off	
1977/78	17,667	34,173	UAL terminated LAX/MCE service 6/78
1978/79	9,365	20,448	No air service 4/79; AP started 5/79
1979/80	7,731	16,122	
1980/81	6,836	13,821	
1981/82	917	1,767	No airline service 8/28/81 - 5/30/82
1982/83	6,703	13,545	Service resumed 6/82 with Inland Empire

ATTACHMENT "A"

TESTIMONY OF HON. CAROL GABRIAULT, MAYOR, CITY OF MERCED; ACCOMPANIED BY REX VAUGHN, CHAIRMAN, MERCED AIRPORT AUTHORITY

Ms. **Gabriault**. Thank you, gentlemen. It is certainly a pleasure to be here to appear before such a distinguished group. My name is Carol Gabriault. I am mayor of the city of Merced.

For more than 4 years, the city of Merced has not been afforded reliable service. Hopefully, the byproduct of these hearings will assure the valley cities with reliable air service. With me today I have our new city manager, Mr. Tom Andresky, Mr. Rex Vaughn, chairman of the Merced Airport Authority, who will make an oral presentation, Mr. James Edmundson, member of the airport authority, Mr. Mark Baptista, Merced County Association of Governments, Mrs. Gail McCullough, chairperson, Merced County Airport Land Use Commission, and Alex Talmud, Merced director of Transportation. Mr. Vaughn.

Mr. **Vaughn**. Good morning. My name is Rex Vaughn and I am chairman of the Merced Municipal Airport Authority. At the request of the mayor and the city council of Merced, I'll be presenting the city's position on the essential air service program as it has and could affect the city of Merced. Before I begin my remarks, I would like to again pass on the appreciation of the mayor and the city council to be able to discuss this problem and this program in an open, public forum.

I think it is essential that we present some background information. This might get a little tedious. It parallels very closely with what you've heard from the Modesto representatives, but I want to go through it anyway.

Up until June 1978, Merced was receiving jet service by United Airlines to both Los Angeles and San Francisco. With the implementation of the Deregulation Act, the abandonment of Merced by United became a reality. The Los Angeles service was discontinued in June 1978 and the San Francisco service remained until April 1979, although it was quite erratic, with very late evening and very early morning flights.

With the departure of United Airlines, the selection process for a replacement carrier, in accordance with the act, was placed in effect and we regained commuter service to San Francisco and Los Angeles in May 1979, provided by an outfit called Gem State Airlines, which was doing business as Air Pacific. Since the pullout of United Airlines, Merced has been in the unfortunate position of having four different regional carriers certified by the Civil Aeronautics Board as being capable of providing essential air service during a 4-year period.

The first carrier I mentioned earlier was Air Pacific, who was soon replaced through corporate merger by Golden Gate Airlines. Golden Gate soon fell upon hard economic times and was replaced for a brief period by their corporate partner, Swift Aire. The financial collapse of Golden Gate also brought Swift Aire down very soon thereafter, and in August 1981 all service to Merced was terminated.

Under the terms of the act, efforts were commenced immediately by the CAB to provide a replacement carrier, but it was not until

June 1982 that a suitable carrier was selected and air service was resumed. We had about an 8-month period where we had absolutely no service at all. Today the fourth carrier, Inland Empire Airlines, is facing the same economic collapse that has affected the previous carrier. And in late July of this year, the Civil Aeronautics Board determined that Inland Empire was no longer suitable to provide the essential air service to the city of Merced. At the request of the mayor and the city council, however, the Civil Aeronautics Board has allowed Inland Empire to continue serving Merced on an interim basis until a replacement carrier can be selected by the Board and community.

In April 1980 Merced did receive an essential air service determination from the CAB in Order No. 80-493 and amended again in 1982. And it states that Merced should receive a minimum of two round trip flights for Los Angeles, and two round trip flights to San Francisco every weekday and on weekends, and minimum service was set at one round trip per day to the Los Angeles area and one to San Francisco, and that flights were to provide a minimum of 44 inbound and outbound seats per weekday and 44 seats in and out per weekend. At this time the city has no quarrel with that level of service. We felt that it was adequate then and we feel that it is adequate now.

During United Airlines' last full year of operation in Merced, we had a passenger count through the Merced terminal of approximately 39,000 people. The city's population at the time that the Deregulation Act was implemented was approximately 33,100 people, and today the city's population stands at 43,096, based on the latest census. Castle Air Force Base, who is a major user of the local commerce service, has maintained a base population of more than 5,000 personnel over the past several years. In contrast to the significant increase in civilian population of about 31 percent and the steady Base population, the passenger count at the Merced airport has dropped from a high of 39,000 per year to just over 13,500. That is a 65-percent reduction since the initiation of the Airline Deregulation Act.

I'd like to make reference to Mayor Carol Gabriault's letter of August 8, 1983, to the Honorable James Howard, which graphically illustrates, in attachment A to her letter, that traffic loss in passenger traffic was pretty much downhill. If you were a skier, it would be great; for airline service it is not too good.

Based on what I have presented so far, it is clearly evident that the essential air service program has not been a stellar success for the city of Merced. For Merced and probably many of the other valley communities, the problems of transition from the large national carriers to the smaller regional carriers have contained a common denominator: Unreliable service, frequent schedule changes, and economically unsound airline operators. As an example of these problems, I request that the members of the subcommittee examine attachments 1 and 2, which are included in the written comments of my remarks. This chart and graph which was prepared by the city airport management staff from data supplied by the airline companies clearly illustrates the volatile nature of the monthly scheduled flights, and it also shows the dismal completion record of all the operators trying to meet their own unpredictable schedule levels. Some variance in completion percentages during the fogbound winter months can be expected, and the chart itemizes those cancellations that are weather related.

No carrier, regardless of its quality, can be held accountable for zero airceiling and visibility conditions; however, the city feels that consistency and reliability of service have not been the watchword of any carrier selected to serve Merced. The high turnover rate of carriers due to economic failure doesn't need any charts or graphs for illustration; it clearly speaks for itself. Even now the present carrier, Inland Empire, is operating under Chapter 11 bankruptcy protection, and its economic future, even as an interim carrier, is in question.

With few exceptions the causes for the failures of the carriers serving Merced seem to follow the same course. And after obtaining the essential air service routes to Merced and or the other valley communities, carriers immediately embarked on other expansion programs rather than concentrating their efforts on those communities where subsidized routes had been awarded. In a matter of months, the carriers, being underfunded and operating with less than an adequate number of aircraft, started radically changing schedules, and many flights were later canceled due to unavailability of aircraft. The carriers were caught with too many scheduled commitments and not enough resources. All of this created the problems of reliability and consistency of service, and the air carriers' own performance figures reflect this course of events.

It's clear to the city of Merced that the dramatic dropoff in passenger traffic since the departure of United is due to the dismal level of quality air service provided by the past and present carriers. That has been echoed by the previous speakers. It is also common knowledge that the six travel agencies within the Merced area recommend to their customers that they either drive to San Francisco or to Modesto and get on an airplane rather than risk having a Merced-originated flight canceled out from under them. I have done that personally. On packaged vacation trips, you cannot take the chance of missing that big connection out of a major hub. The travel agents know that if they book passengers on unreliable modes of transportation that soon they will no longer be in the travel business.

The same is true for Castle Air Force Base. Base personnel who used to comprise some 60 percent of the passenger traffic through Merced are now being transported in Air Force buses to Fresno, or San Francisco, or other points, in order to assure reliable air service. The civilian and the military travel agencies have abandoned Merced air service due to the totally unacceptable levels of air-carrier reliability.

The city, recognizing the importance of consistent regular air service to its community, has just done about all it can to promote airline service into and out of Merced. Community volunteers, city staff, and even our congressional representative have put forth time and effort to select carriers and to help develop promotional programs to foster public support. Parallel efforts never materialized on the part of the air carriers. The city staff has requested on many occasions that air-carrier representatives join with the staff in an attempt to assure the general public that fast deteriorating service levels be turned around, but to date the response from the carriers has been negative.

As far as the city of Merced is concerned, it can be concluded that the Civil Aeronautics Board response in attempting to guarantee air service as required by the act has been timely although less than effective. The Board has been unable to select and certify air carriers that have been fit, willing, and able to provide reliable air service to Merced over a long period of time. It appears that the guidelines used by the CAB in qualifying a carrier are due for immediate review to reduce or prevent the failures of the past.

The city would like to suggest that those nominees for replacement air service to Merced make available to the CAB and to the city a complete financial and managerial disclosure—current and past schedule performance, number and type of aircraft in their inventory, type of aircraft proposed to service the city, and a customer list of cities presently served—so that we can verify their track record. This should be in addition to the proposed schedules in the amount of subsidy required to operate the route. Without this information the city feels it will not be able to make the best informed decision on a replacement carrier.

In summary, the city of Merced feels that the future success of the essential air service program and continued air service after the expiration of government subsidies is going to depend entirely upon the air carrier's ability to provide highly reliable and quality air service, and upon the CAB's ability to monitor and assure that those service commitments are realized. The public trust must be regained, that's all there is to it. For service to continue after the 1988 expiration of the essential air service program, the carriers must be able to rebuild the Merced air-traffic market to its full prederegulation levels, so that they can operate that market on a profitable basis without Government subsidy.

Thank you.

Mr. MINETA. Mr. Vaughn, thank you very much for your fine statement.

Let me ask: Unlike most cities have you decided on two occasions that it would be preferable to have no service or poor service than to have the Board quickly fill the service with a new carrier? In September 1981, you asked the Board to make no interim carrier selection following the collapse of Golden Gate. You had no service, as you pointed out, for 9 months as a result. In recent weeks you asked the Board again not to designate a replacement carrier for Inland Empire. You seem to be taking the approach that it is easier to build a market up from no service than to build up that market from a situation where you've claimed to have service but could not deliver on its reliability. Now, is this an approach you think the Board should take elsewhere? In other words, don't just put somebody in to meet the terms of the statutory guarantee, but wait until you've got somebody who can really do the job even if the guarantee goes begging for a while?

Mr. VAUGHN. From the city of Merced's standpoint, that is exactly why we did it. And let me give you a little more background on that.

At the time we lost Golden Gate and Swift Aire, the proposals that were submitted to the CAB and to the city, the city took the position that any of those carriers was unacceptable at that time, either through schedules proposed, type of aircraft used, or the known reliability of the carrier. The city elected to take as cautious a position as we could because we are very cognizant of the fact that we're not going to have too many shots at this thing; 1988 rolls around and there's a good chance that if we don't have a profitable carrier operating out of Merced, we're done. We're a small community, a lot smaller than Modesto; we're going to have to make it on our own. And, therefore, caution was the primary criteria that Merced used.

For a small community such as Merced, I think that should be the position that the CAB should use; they should not just grab whatever carrier they can find and throw it in to fill the void, because the repercussions of that move could possibly be a lower level and more detrimental situation than we've got right now. A lot of things go on to get a carrier established. It's going to take them 30 to 60 days to really get going. They've got to get counter space, they've got to get tied into the national reservation system, they've got to bring equipment and staff onsite; there's a lot of things to setting up an operation. And we felt that in the present case we would be better off living with a known evil and coming in with an interim carrier and then, 60 days later, throwing them out and bringing in a permanent replacement.

Mr. MINETA. And yet that approach doesn't seem to guarantee that you'll get a quality carrier in its replacement.

Mr. VAUGHN. It didn't work in the *Inland Empire* case, that's right.

Mr. MINETA. The good news is you waited 9 months; the bad news is you got Air Chaparral, which has not really proven to be what you had in mind.

Is it realistic to believe that a community or the Civil Aeronautics Board should be able to look at a carrier and be able to predict how it will perform in the market in the future and whether it will survive?

Mr. VAUGHN. When Inland Empire was examined, it became a community consensus that that was the best proposal that we had received at the time. The only thing that a community and the CAB can do is take a look at the past history in an organization, and at that time Inland Empire looked pretty good. They had serviced well in other areas. It's just in the recent few months that they have fallen upon hard times. I think the city is proper in taking this course of action, because the only thing that we can make an informed decision on are the facts, and in this case facts or past history, past performance.

What other criteria could you possibly use to make that type of decision? I don't know; I think it is a proper course of action.

Mr. COELHO. Would the gentleman yield?

Mr. MINETA. Surely. In fact, let me at this point turn the questioning over to you.

Mr. COELHO. I think, Mr. Chairman, the critical issue here is that the city of Merced has forced dialog between itself and an airline. The CAB has made some of these decisions on behalf of cities and there is not the dialog that is needed, I think, between the city and an airline. That is critical. The city's reputation is at stake, the city's future is at stake, the city's economic viability is at stake. The city has a tremendous amount to lose if there is a failure; the CAB does not have much to lose if there is a failure. And that is why the involvement, the participation of cities in these decisions, I think, is important.

I think Merced has taken a very tough stance. It is my home city and I'm very involved and supportive of what they are doing, but they have taken a very tough stance. They're not interested in wasting taxpayers' money any more than anybody else, but they are very concerned about the reputation of their city. They have a major SAC facility that they want to maintain and they don't want the reputation to develop that, in effect, justifies the closing down of that facility. So, I think what Mr. Vaughn is pointing out, and my meetings with the city and county people in Merced, is that the CAB has been helpful, we don't deny that, has been cooperative, but that the decisionmaking is a very, very critical part of an overall city's planning. And as the former mayor of a city, you understand what that means.

Mr. MINETA. Is it my understanding that Castle Air Force Base is saying, "Don't book Inland Empire Airlines"?

Mr. VAUGHN. That is correct. They are using their own buses to transport their personnel to places where they can receive reliable air service.

Mr. MINETA. And yet you say they've had a 25 percent increase in their Base personnel.

Mr. VAUGHN. No; the Base has remained steady; the community has grown.

Mr. MINETA. The community has grown.

Mr. COELHO. The Base has remained very stable and we are increasing the permanent structure of the Base to make sure that we create, with expenditure of funds and so forth, the permanency of that Base there. The problem that the people of Castle have, Mr. Chairman, is that their personnel need to move in and out and they need to do it on a timely basis and a reliable basis. And they need air service, want air service. They came to make the decision of Merced because the air service was there; now they are having problems in that their personnel has to ride a bus in order to get there and to leave there. But they cannot afford, timewise or moneywise, to have those personnel not meet those airlines. So, we're talking about Government here now, and they have made the decision to use their own buses; which, I think, is a shame.

Mr. MINETA. It points out that no matter how much money you pour into the program through a subsidy, essential air service subsidy, if you don't have reliability the credibility of the community is impacted adversely.

Mr. COELHO. That's right.

Mr. VAUGHN. That is true. We do our gambling up in Nevada, not in California.

Mr. MINETA. Now, what was the result of the meeting, Tony, that you chaired in bringing together the City of Merced, aviation interests, and Air Chaparral key staff?

Mr. COELHO. Well, what we did was, after the 8 month period and we agreed that Inland Empire was the best place to go, met with city officials and also had discussed this with CAB officials.

They thought it was a good idea. We put together city and county government people, all the agents, and major business people in the community and in the county, and had some of the Air Chaparral personnel there. And, basically, it was for an exchange of information, "What can we do to promote?" and so forth. We had, I thought, an excellent meeting. It was well attended; the interest was high. The people from Air Chaparral were cooperative, but when they walked out of the door it stopped. We have not heard from them since. The spirit of cooperation ended at that meeting.

The unfortunate thing is that the city and county of Merced continued their spirit of cooperation and felt that they had a going thing, not realizing that the door had already been shut as far as they were concerned.

Mr. MINETA. Mr. Vaughn, thank you very, very much for your presentation.

Mr. VAUGHN. Thank you.

Mr. MINETA. And, Mayor Gabriault, thank you, too.

At this time I would like to call forward Mr. Patrick B. Murphy, associate director of economic affairs, Bureau of Domestic Aviation, from the Civil Aeronautics Board in Washington, D.C., and Mr. John Smith, the field representative of the Civil Aeronautics Board located in San Mateo.

Mr. Murphy, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF PATRICK V. MURPHY, JR., ASSOCIATE DIRECTOR, BUREAU OF DOMESTIC AVIATION CIVIL AERONAUTICS BOARD

Thank you for the opportunity to present the views of the Civil Aeronautics Board on the section 419 Essential Air Services program and how it is working, particularly in California.

Before addressing the very difficult problems faced by the communities in central California, I would like to take a few moments to put our essential service program in the context of how it is working around the country.

I believe it is fair to say that nationwide the Essential Air Service program has worked well. It was included by Congress in the Airline Deregulation Act to guarantee that none of the more than 700 certificated communities lost all service as a result of deregulation and to replace the old section 406 subsidy mail pay program which had become an ineffective and costly way of maintaining service to small certificated communities.

In the 10 years prior to the passage of the Deregulation Act, 137 small communities throughout the country had been deleted from the certificated air service map, yet the cost of the 406 subsidy program continued to go up. Some of these 137 communities were able to obtain commuter air service but most lost all their air service.

Congress was concerned in 1978 that deregulation would increase this steady stream of lost air service and rising subsidy into a flood of lost air service.

However, the Essential Service Program has halted this steady loss of all air service to certificated communities.

In the nearly five years since the ADA was passed not one certificated community which was guaranteed essential air service lost all air service.

This contrasts sharply to what has happened with small communities outside of the essential service program where 102, or half, of the total number of 203 lost their air service between 1978 and 1982. These 102 communities were served by commuter carriers when the Deregulation Act passed and were never guaranteed any level of service.

Our success in retaining service to all essential service communities has occurred while the number of communities requiring subsidy support has declined to nearly one half of the number receiving taxpayer support under section 406 when the Deregulation Act was passed.

In 1978, 202 points in the lower 48 states were subsidized. By October, when all remnants of the old subsidy program are ended, the number will be 102.

Total subsidy in the lower 48 states amounted to $71.7 million in 1978.

By October subsidy will amount to about $42 million annually.

In addition there were 198 points in Alaska receiving subsidized service. Currently there are approximately 50 subsidized points. Alaskan subsidy in 1980 amounted to about $8.0 million while today we estimate Alaskan subsidy at about $6.0 million annually.

I must point out, however, that these subsidy savings have not been a factor in the air service problems in central California. Subsidy to Bakersfield, Merced, Modesto, Stockton and Visalia went from zero in 1978 to $1.6 million per year today, as the Civil Aeronautics Board attempts to obtain quality air service for these communities.

So on a national basis, I think the section 419 essential air services program has been a great success in meeting its primary objectives of maintaining air service at small communities in an efficient way.

In California too, except for the communities we are discussing today, I think the program has generally worked well. There are 21 points in California for which essential service has been defined as required by the Deregulation Act including 3 which had been deleted from certificates during the 10 years prior to deregulation.

None have lost all air service.

Of these 21, 13 are receiving air service without subsidy support. Of these 13 nonsubsidized points, almost all have more service in terms of departures than in 1978 and several have more seating capacity. Only two have fewer aircraft departures. Of the eight subsidized points most of these have more scheduled departures than in 1978 but capacity has declined.

Stepping outside the EAS program for a moment and looking at service at all points in California, large and small, California had about 15 percent more aircraft departures scheduled in June of this year than in June of 1978, and total seats offered are up about five percent.

Nationally, departures for June were up 15 percent over 1978 levels and seats were about 17 percent higher than before the ADA was passed.

These national upward statistics are shared by all sizes of communities with our latest data showing large and medium hubs experiencing increases in capacity and flight frequencies while small hubs and essential service nonhubs show increases in flight frequencies and declines in seating capacity.

Also, 1983 versus 1982 comparisons show large year-over-year increases in flights at all sizes of communities.

Nevertheless, the benefits of deregulation are not spread evenly, and no one ever believed they would be.

There have been many winners and losers as we see an entire industry being restructured. Certain airlines have prospered, others have failed. Some employees have lost jobs, others have entered the airline industry for the first time.

Many communities have had improved service, others have seen declines.

Nowhere have the declines and problems been greater than here at Modesto and four other San Jaoquin Valley points—Stockton, Merced, Visalia and Bakersfield.

Each of the Central Valley communities has experienced from two to five carrier changes over the past five years, including the loss of jet service by United during late 1979 and early 1980. With the exception of Stockton, the frequency of service has increased at these points since 1978; but because smaller aircraft are now being used, total seat capacity is down by 26 to 66 percent.

Standard coach fares from the five points to Los Angeles and San Francisco are two to three times higher today than they were in 1978.

Passenger enplanements are only about one-third to one-half of the level before deregulation.

These statistics clearly indicate that these five communities haven't shared the benefits of deregulation at their local airports.

We have seen passenger declines over the past few years at many other small communities around the Nation. However, the absolute decline in traffic at these Valley points has been far greater than normal declines.

Merced, the smallest of the Valley points, went from 46 enplanements per day in 1978 to 25 in 1982.

Bakersfield, the largest with 405 enplanements per day in 1978, was down to 127 enplanements per day in 1982.

Modesto, Stockton and Visalia have had equally disappointing results.

Certainly the recession of the past two years, the PATCO strike and rising fuel prices of a couple of years ago all had something to do with the traffic declines we've seen at some small communities, including the five Valley points. In addition, two major changes in airline practices under deregulation have altered travel patterns and contributed to the decline in traffic at certain communities all over the nation and the improvement in service at others.

The first change deals with carriers' route strategies. There has been a tendency for major carriers and some new entrants to concentrate their activities at hub airports where the economics of large jet aircraft are best utilized.

This trend has led to better service and substantially lower fares in many major markets.

This added competition in major markets has produced some of the best travel bargains ever seen.

These benefits of course flow to everyone who can get to a hub airport, and people have been driving further distances to take advantage of these bargains.

Second, as a related matter, competition and lowering of fares in major markets has eliminated the cross-subsidization of small points and short-haul routes. Before deregulation major carriers could support thinner routes with profits from major long-haul routes. The CAB's mandatory fare formula encouraged this.

Today, every route must bear its own costs. This has caused fares at small points to increase and reinforce the tendency of travelers to take surface transportation directly to hub cities.

These industry-wide trends explain some decline in Central Valley air service, but the question still remains: Why has the decline in traffic and service at the Central Valley points been so dramatic?

We believe we have identified four unique characteristics of air service in California which provide the bulk of the answer to this question.

First, prior to deregulation intra-California markets had their own regulation by the California Public Utilities Commission. This regulation had price consequences which still have an impact. The PUC fostered very low fares in relation to similar markets elsewhere in the country.

Intrastate carriers which did not fall under the jurisdiction of the C.A.B. offered low fares in high density California markets, especially between Los Angeles and San Francisco. Because of the geography of the state and its well-developed highway system, these fares served as a benchmark for other intra-California fares. Merced, Stockton and Modesto are close to San Francisco, Visalia travelers can drive to Fresno and pick up jet flights at low fares, and Bakesfield passengers are approximately 100 miles from Los Angeles.

This situation meant that as deregulation resulted in an end to PUC regulation, fares in California moved more in line with national fare levels. Therefore, the state's travellers have experienced larger fare increases. This has had a negative impact on traffic levels.

However, fares, while moving slowly toward the national norm, are still significantly lower in California.

In general, fares in the essential service markets of California are about 30 percent below fares in similar markets outside the state. This low fare structure has seriously weakened the ability of commuter carriers to prosper in California. A commuter in California would have to be far more efficient than such carriers in other states, if it is to survive.

A second consequence of PUC regulations which causes problems today is that it regulated entry of commuter carriers.

Commuters could not develop in California as they have in the rest of the nation.

This limit on entry, combined with low fares, resulted in a commuter industry which in hindsight was underdeveloped.

For example, of the 50 largest commuters at the time of deregulation, California had only two—and both of these have since failed.

In other parts of the country, for example Colorado, Texas and Pennsylvania, there were well developed commuters in 1978 and no major commuter failures since deregulation.

The California commuters were just not up to the job of replacing larger carriers.

In other parts of the country, we've seen states where transitions to commuters have been so much smoother because the commuters were more well developed.

This underdevelopment has forced the Board to rely on commuter replacement carriers that are less than optimum.

Consequently, four commuters we relied on in the Valley—Air Pacific, Swift, Golden Gate and Golden West—failed.

We have been disappointed by these failures since we have worked hard to secure the best service available. We even were responsible for encouraging three carriers to move their operations into California. The Board has received various suggestions as to how to alleviate the problems encountered by these communities. Ideas such as ordering established carriers to reenter these markets, forming our own air carrier, or providing total financial support to existing weakened firms have been raised. However, these concepts are inconsistent with our statutory authority.

However, on a daily basis we continue to work with one or two of our California replacement carriers in an effort to sustain service in this area.

A third factor causing difficulty in the five Valley points is that they all lost service by one of the nation's major domestic carriers—United.

This carrier offered services that commuters can never replace.

Most small communities we work with have undergone transitions from local service carriers, like Frontier and Republic operating 50-seat Convair 580 aircraft, to commuter carriers.

These California points had to experience a much greater shock. Especially since United offered a fare structure including common fares with Los Angeles and San Francisco which replacement carriers can't match.

This problem of adjusting to commuter service is exacerbated by the nearness of excellent hubs like Los Angeles, San Francisco, Fresno and Sacramento where the big carriers operate. Most small communities don't have so many good nearby travel options.

The fourth, and last, unique problem I'll mention is that California commuters have been the victim of the largest disruption in the commuter industry's history.

A New York financier attempted to amalgamate several large commuters into one giant to serve the entire western United States.

For one short time his operation did cover many western states.

Unfortunately the plan was poorly devised and executed, resulting in the biggest commuter failure ever. Millions of dollars were lost, hundreds lost jobs and air service in California was damaged. Each community represented at this hearing had to undergo one or two carrier changes because of that failure and experienced loss of traveler confidence in service at the local airport.

Today, nearly five years after passage of the ADA and after a great deal of turmoil, I wish I could say the picture is definitely improving. But I can not. Certainly there are some bright spots. Modesto and Stockton are receiving the large jet service by Pacific Express to Los Angeles that they sought.

We have recently selected Wings West, a fine new carrier, with the community's endorsement, to provide EAS to both Los Angeles and San Francisco from Visalia.

And, Bakersfield, at one time requiring subsidy support, is now receiving jet service by Continental Air Lines and Pacific Express along with service from several commuters.

The very modest success we have achieved is due in large part to the extraordinary cooperation, expertise and patience of the civic leaders of each of the communities as well as the state aviation officials. Also the constant interest and suggestions by members of Congress such as Congressman Coelho ensure that the Board continues to focus on these communities. This has resulted in the Board's acute awareness of central California's problems and willingness to take extraordinary steps including subsidizing jet service to Modesto and Stockton.

There are, however, still far too many problems. Air Chaparral is struggling to survive while we rely on it at Merced and in the Stockton-San Francisco and Modestor-San Francisco markets. A recent attempt to replace Chaparral at Merced resulted in proposals by four carriers which the community found wanting. And perhaps most significant is Pacific Express's financial condition which is not strong.

The most recent development, an announcement by United Airlines, could substantially alter conditions in California in the near future. Effective September 7, United will increase its service to San Francisco by 27 flights, step up its service by more than 50 percent in the Los Angeles-San Francisco market, open new stations at Eureka and Redding, add 5 flights to Fresno and 3 to Monterey.

These steps appear to reflect United's strategy of building its San Francisco hub and its willingness to open new smaller stations.

In 1983 United will have opened 13 new stations.

On the one hand this is good news in that United is coming back into smaller California points and maybe they will continue this expansion.

On the other hand, this service will to some extent undermine the ability of commuters and new jet carriers to gain the financial stability they need to provide their vital small community service to California.

In closing, we will work diligently to see that essential air service at the five Valley points will stabilize in years to come. We are working right now on a day-to-day basis with four of these communities as we deal with Air Chaparral's problems.

Although we continue to be concerned about the potential for carriers achieving and maintaining economic viability in the face of California's low fare structure, we are guardedly optimistic that, with an improving economy, the problems will diminish. In the long run, we are convinced service will stabilize as California's air service adjusts to its unique circumstances. Our interest in central California's service problems remains a top priority in the small communities program. Our recent action of subsidizing jet service to Stockton and Modesto and Chairman McKinnon's subsequent visit to Modesto testify to our interest. We remain open to suggestions and look forward to the ideas that should be advanced today.

We remain convinced, however, that the best regulatory approach is to allow the situation to develop in the marketplace while we interfere as little as necessary.

Mr. MINETA. Please proceed.

TESTIMONY OF PATRICK V. MURPHY, ASSOCIATE DIRECTOR, ECONOMIC AFFAIRS, BUREAU OF DOMESTIC AVIATION, CIVIL AERONAUTICS BOARD, WASHINGTON, D.C., ACCOMPANIED BY JOHN SMITH, FIELD REPRESENTATIVE, CIVIL AERONAUTICS BOARD, SAN MATEO, CALIF.

Mr. MURPHY. Thank you, Congressman Mineta, Congressman Coelho. It's a pleasure to be here today. I think I would like to make the presentation on behalf of the Board and make myself and John Smith available for questions.

Before getting into the very difficult problems that we have all heard in the last few moments involving air service in central California, I would like to put the small community air service program in context of how it is working around the country, for a moment or two. I believe it is fair to say that, nationwide, the program is working well. It was included by Congress in the Airline Deregulation Act to guarantee that none of the 700 certificated communities around the country lost all their air service as a result of deregulation. It was also designed to replace the old section 406 subsidy program.

In the 10 years before the Deregulation Act was passed, 137 small communities lost their certificated service around the country, and subsidy continued to go up. Some of these 137 communities have been able to retain service on their own but many of them have not. Congress was concerned, in 1978, that with deregulation this steady increase of communities losing service would turn into a flood of lost air service. I believe it is fair to say that the essential air service program has prevented that flood from occurring. In the 5 years since the act was passed, not one certificated community that was guaranteed air service has lost all its air service. This contrasts sharply with what has happened to small communities outside the essential service program. Approximately 102 communities out of the 203 around the country that were outside the program in 1978 have lost all their air service. These 102 communities were served by commuter carriers which were not certificated, and, therefore, the communities were not guaranteed service.

Our success in retaining service to the essential service communities has occurred while spending fewer subsidy dollars. In 1978, there were 202 points in the lower 48 States that were subsidized. By October that number will have been reduced to 102 communities. Total subsidy in the lower 48 States amounted to $71.7 million in 1978. By October, subsidy will amount to $42 million annually. In addition, we subsidize service in Alaska, and the number of points receiving subsidy there has declined from approximately 200 to approximately 50.

I want to point out that this subsidy savings has not been a factor in the air service problems you've heard today. As a matter of fact, subsidy in the valley, the San Joaquin Valley, has gone from zero in 1978 to $1.6 million per year today. On a national basis I think it's fair to say that the 419 program has been a success in meeting its primary objectives of maintaining service to small communities in an efficient way.

In California, also, we think the program has worked reasonably well. There are 21 points in California for which we have defined essential service. Three of them were deleted prior to the Deregulation Act. None of these 21 communities has lost service; 13 of these 21 communities are receiving service without subsidy. Of these 13 nonsubsidized points, almost all have more service in terms of aircraft departures than they had in 1978, and several have more capacity. Only two have fewer departures. Of the eight subsidized points in California, most of these have more scheduled departures, but the capacity at these points has declined.

Stepping outside the EAS program for a moment, and just looking at air service to California in general, both large and small communities, California today has 15 percent more scheduled aircraft departures than it had in 1978, and the total capacity, that is aircraft seats available to passengers, is up 5 percent. Nationally, departures are up 15 percent this June as compared to June 1978, and capacity is up 17 percent. These national upward statistics are shared by all sizes of communities, with our latest data showing large and medium hubs experiencing the greatest increases, whereas smaller communities are not sharing as greatly in some of these increases.

We are also pleased to point out that in 1983 we're seeing big increases in service over 1982, as the country moves out of recession. Nevertheless, the benefits, as you've heard today, have not been spread evenly and no one ever believed they would be. There have been many winners and many losers, as we see an entire industry being restructured through deregulation. Some airlines have prospered, others have failed. Some employees have lost jobs, others have had their first jobs in the airline industry. Many communities have had improved air service, others have not.

Nowhere have the declines been more severe than here in the San Joaquin Valley—Stockton, Merced, Visalia, Modesto, Bakersfield. They are not typical of communities around the country. Each of these Central Valley communities has experienced from 2 to 5 carrier changes in only 5 years, including the loss of jet service by United Air Lines. With the exception of Stockton, the frequency of service has increased at these communities in terms of departures, but because the aircraft are so much smaller total capacity is down by 26 to 66 percent. Coach fares are 2 to 3 times higher today than they were in 1978. Passenger levels are one-third to one-half what they were at the time of deregulation. These statistics clearly indicate that these 5 communities haven't shared the benefits of deregulation at their local airports.

We have seen passenger declines over the past few years at other small communities. However, nowhere have the absolute declines in traffic been as great as at these five communities. Merced, for example, the smallest of the points, went from 46 enplanements per day to 25 a day. Bakersfield, the largest, went from 405 enplanements per day down to 127. Modesto, Stockton, and Visalia have had equal disappointments. Certainly, the recession of the past 2 years, the PATCO strike, rising fuel prices, have had something to do with these declines.

In addition, two changes in airline practices around the country have had an impact. First, airline route strategies. There's been a tendency for major carriers and some of the new entrants to concentrate their service at hub airports, where the economies of large aircraft are most efficient. This trend has led to better and better service and substantially lower fares in many major markets. This added competition in major markets has produced some of the best travel bargains ever seen. These benefits flow to everyone, including those at these small communities who can get into a car and drive to the large airport.

Second, as a related matter, competition and lowering of fares in major markets has eliminated cross-subsidies at small points. Before deregulation some major carriers could support thin routes with profits from long-haul routes. The CAB's fare formula actually encouraged this. Today, every route must bear its own cost. This has caused fares at small points like those in the valley to increase and reinforce the tendency of travelers to take surface transportation directly to hub cities.

These are industrywide trends, and they explain, I think, some of the reasons for the decline, but they don't explain why the decline has been so severe in the valley. We think we have identified four unique characteristics that have led to the problems, and I would like to point those out.

First, prior to deregulation intra-California markets had their own regulation by the California Public Utilities Commission. This regulation had price consequences which still have an impact. The PUC fostered very low fares in relation to similar markets around the country.

Intrastate carriers which did not fall under the jurisdiction of the CAB offered low fares in high density California markets, especially between Los Angeles and San Francisco. Because of the geography of the State and its well developed highway system, these fares served as a benchmark for other intra-California fares. Merced, Stockton, and Modesto are close to San Francisco, Visalia passengers can pick up jet service at Fresno, and Bakersfield is approximately 100 miles from Los Angeles.

This situation meant that as deregulation resulted in an end to Public Utilities Commission regulation, fares in California moved more in line with national fare levels. Therefore, the State's travelers have experienced large fare increases. This has definitely had a negative impact on traffic. However, fares, while moving slowly toward the national norm, are still much lower in California. In general, fares in the essential service markets in California are 30 percent lower than fares in other markets around the country. This low-fare structure has weakened the ability of commuter carriers to prosper in California. A commuter in California must be far more efficient than a commuter anywhere else in the country if he is to survive.

A second consequence of PUC regulation which causes problems today is that they regulated the entry of commuter carriers. Commuters could not develop in California as they had in the rest of the Nation. This limit on entry, combined with low fares, resulted in a commuter industry which today, in hindsight, we see was underdeveloped in California. For example, of the 50 largest commuters at the time of deregulation, California only had two and both of these have since failed. I think, today, that California has none of the largest commuters of the country.

In other parts of the country, for example Colorado, Texas, and Pennsylvania, there were well developed commuters in 1978 and no major commuter failures have occurred since deregulation. The California commuters were just not up to the job of replacing large carriers. In other parts of the country, we have seen transition to commuters much smoother because the commuters were more well developed.

This underdevelopment has forced the Board to rely on commuter replacement carriers that are less than optimum. Consequently, as related to you today, we have seen failure after failure of carriers in California. We at the Board have been disappointed; we have worked hard to secure the best service available. We were even responsible for bringing several carriers into California—Aspen, Gem State, Chaparral.

We have received other suggestions on how we might proceed. Ideas have been raised, such as ordering established carriers like United to reenter the market, form our own carrier, provide total financial support to existing weakened firms. However, these concepts are inconsistent, we think, with deregulation. Nevertheless, we continue on a daily basis to work with California replacement carriers in an effort to sustain service in the area.

A third unique factor which has been a problem here in California is that they all lost service by not just any carrier but by United Airlines. This carrier provided a type of service that no commuter can ever replace. Most small communities we work with have undergone transitions from local service carriers, like Frontier and Republic, operating 50-seat Convair aircraft, and the switch to a commuter was less traumatic. Here in California we have seen communities have to go through much greater shock, especially since United offered a fare structure including common fares with Los Angeles and San Francisco, which replacement carriers just can't match.

This problem of adjusting to commuter service is exacerbated by the nearness of excellent hubs such as Los Angeles, San Francisco, Fresno, Sacramento. Most small communities around the country don't have these travel options.

The fourth and last unique situation in California which is affecting the service today is that it was the victim of the largest commuter failure in history. A New York financier attempted to amalgamate several large commuters who we were hoping would develop into replacement carriers. He tried to amalgamate them into one giant to serve the entire United States. For one very short period of time, he did cover many States with this service. Unfortunately, his plan was poorly devised and executed, resulting in the biggest commuter failure. Millions of dollars were lost, hundreds of people lost their jobs, and the air service of the State was damaged. Each community here had to undergo one or two carrier changes because of that failure and experienced the loss of traveler confidence which has still not been recouped.

Nearly 5 years after the act and after a great deal of turmoil, I wish that I could say today that the picture is definitely improving, but I cannot. Certainly, there are some bright spots. Modesto and Stockton are receiving large jet service by Pacific Express to Los Angeles that they sought. We have recently selected Wings West, a fine new carrier, with the community's endorsement, to provide EAS to both Los Angeles and San Francisco from Visalia. And Bakersfield, at one time, one short period of time, requiring our subsidy support, is now receiving jet service by Continental and Pacific Express, along with service from several commuters, with no subsidy support.

This very modest success that I just related to you was achieved, in large part, through the extraordinary cooperation, expertise, and patience of civic leaders in each of the communities and by State aviation officials. Also, the constant interest and suggestions by a Member of Congress such as Congressman Coelho can ensure that the Board continues to focus on these communities. This has resulted in the Board's acute awareness of central California's problems and our willingness to take extraordinary steps, including subsidizing jet service to Modesto and Stockton.

There are, however, still far too many problems. As you know, Congressman, from your flight last night, Air Chaparral is struggling to survive while we are relying on it at Merced and at Stockton-San Francisco and Modesto-San Francisco markets. A recent attempt to replace Chaparral at Merced resulted in proposals from four carriers which the community found wanting. And perhaps most significant of all, Pacific Express's financial condition is not strong.

The most recent development that we have encountered, the announcement by United Airlines, could have substantial impact on conditions in California in the near future. Effective September 7, United will increase its service to San Francisco by 27 flights. They will step up their service by 50 percent between Los Angeles and San Francisco. They will open new stations at Eureka and Redding, and add five flights to Fresno and three to Monterey.

These steps appear to reflect United's strategy of building a San Francisco hub and its willingness to open new smaller stations. In 1983, United will have opened 13 new stations. On the one hand this is good news for those communities that receive their new service. On the other hand, the service will, to some extent, undermine the ability of commuters and new jet operators, such as Pacific Express, to gain financial stability they need to provide a vital service to the central Valley.

In closing I would like to say that we will work diligently to see that essential air service to the five valley points is stabilized in years to come. We are working right now on a day-to-day basis with four of these communities as we deal with Air Chaparral's problems.

Although we continue to be concerned about the potential for carriers achieving and maintaining viability in the face of California's low-fare structure, we are guardedly optimistic that, with an improving economy, the problems will diminish. In the long run we are convinced that service will stabilize in California as California adjusts to its unique circumstances.

Our interest in central California's service problems remains the top priority in the small communities program. Our recent action of subsidizing jet service to Stockton and Modesto and Chairman McKinnon's subsequent visit to Modesto testify to our interest. We remain open to suggestions and we look forward to suggestions that we're hearing today. We remain convinced, however, that the best regulatory approach is to allow the situation to develop in the marketplace while we interfere as little as possible.

Mr. MINETA. Mr. Murphy, thank you very much for that fine statement.

One of the most difficult aspects of this program is that the Board always has to balance between the desires of each community to spend more Federal subsidy money for better and better service versus the interests of the taxpayers, generally, to keep subsidy payments under control. Now, part of that argument has been over jet service, which the board has generally rejected because of the reasonable sounding argument that jet service costs substantially more. Yet when I look at current subsidy rates in the central valley, I begin to question whether that is always the case.

For Stockton-Los Angeles and Modesto-Los Angeles, jet service is now costing $433,000 annually. For San Francisco-Stockton and Modesto-San Francisco the subsidy rate for nonjet service is $316,000 annual rate, not that much less. For Merced-San Francisco and Merced-Los Angeles, also nonjet service, subsidy is $436,000 annual rate, higher than the jet service example.

Why is it that there is not more disparity in the subsidy rates for jet and nonjet service in the central valley?

Mr. MURPHY. I think I can answer that question, Mr. Mineta, in a couple of ways.

First of all, the essential service program was designed primarily as a small community service program, and many of the problems we are seeing today in the valley really involve medium-size communities; they are not small communities.

The act contemplated commuter-type service, I think, with 15-seat aircraft, aircraft in that size range. What we are seeing out here are markets that really have a potential of several hundred people a day, and these commuters aren't able to tap into that. We shouldn't have to pay them at all to provide air service to their hubs. With that size aircraft they should easily be self-sufficient. We are subsidizing the jet carrier in the hope of getting them in here, getting them to see this market and to develop that market. But over the long run, we don't think that the essential service program is a jet program. We are only paying jet subsidy here to bring that carrier in here and, hopefully, have him develop these markets to a self-sufficient point very quickly.

Mr. MINETA. Now, is ridership responding favorably to the jet service in Stockton-Los Angeles and Modesto-Los Angeles?

Mr. MURPHY. It is my understanding that the traffic from the two airports combined is up over what it had been.

Mr. MINETA. Do you know what the current daily enplanement averages are?

Mr. MURPHY. I don't have the current numbers. I have heard that traffic at Stockton—since Pacific Express went into Modesto, traffic at Stockton has declined somewhat; that is, that the two airports, to some extent, compete for the same traffic. And, frankly, that is another problem which I didn't get into in my testimony, but to some extent, as we subsidize service in one community, we draw from the other; but, overall, I think the traffic is up since the jet service is here.

Mr. MINETA. Do you have any idea what this works out to in terms of the current subsidy cost per passenger?

Mr. MURPHY. Since I don't have the latest traffic statistics, I don't, Mr. Chairman; but we can get you those numbers.

Mr. MINETA. And you would be able to supply that for the record?

Mr. MURPHY. Yes.

[The question posed to Mr. Murphy and response follow:]

Question. Do you have any idea what this works out to be in terms of the current subsidy cost per passenger? (Referring to the Stockton-Los Angeles and Modesto-Los Angeles markets.)

Answer. Subsidy cost per passenger for the combined Stockton-Los Angeles and Modesto-Los Angeles service for the month of August is $5.38.

Mr. MINETA. In this difficult tradeoff between the general taxpayer and the desires of the local community, the reliability factor seems to me to play an interesting and increasing role. If the carrier is unreliable, passengers don't book on it, travel agents don't book on it, subsidy costs must increase because you are trying to keep empty planes flying frequently, entirely through subsidy; and yet, the community is not being served because nobody is using the service. My conclusion is that by the unreliable carrier neither the community nor the taxpayer is being served.

I am wondering if you would agree with that.

Mr. MURPHY. I couldn't agree more with that, Mr. Chairman. If we could bring into these communities the kind of commuter service that we've been able to put into some other communities around the country, I'm confident that the traffic would do very well.

We have seen cases where we have put a commuter in who has operated medium-size aircraft, perhaps 30-seat aircraft, put in frequencies maybe on the hour to a hub airport, and the traffic has done very well, has held its own even through the recession. We just haven't been able to get that kind of commuter into these communities, and it's a frustration that we share with these communities that we wish we could go out and reach an Air Wisconsin or a Britt Airlines, some of the other commuters we see around the country; but we don't have them right here, today, in California.

Mr. MINETA. How many seats are you subsidizing in the Modesto-San Francisco market and in the Stockton-San Francisco market, and how many of them currently have passengers in them?

Mr. MURPHY. In the Modesto- and Stockton-San Francisco markets we're subsidizing today two commuter flights in each market.

So, Air Chaparral keeps changing aircraft types on us, but when we calculated the rate it was based on two 19-seat aircraft; so, we were buying 38 seats a day for each community to San Francisco.

Mr. COELHO. Mr. Chairman.

Mr. MINETA. Mr. Coelho?

Mr. COELHO. I just wondered if the CAB had a computer to keep up with the different aircraft.

Mr. MURPHY. I did fly last night, Mr. Coelho, on a Bar Harbor airplane which I saw in Portland, Maine a few weeks ago, that it was here in California.

Mr. COELHO. You wondered where you were?

Mr. MURPHY. Yes.

Mr. MINETA. Now, at an annual subsidy rate of $316,000, do you have any idea what that works out to at the current subsidy cost per passenger?

Mr. MURPHY. Mr. Chairman, I don't have those numbers with me.

Mr. MINETA. That's all right, Mr. Murphy, if you'll go ahead and provide that for the record.

[The question posed to Mr. Murphy and response follow:]

Question Now, at an annual subsidy rate of $316,000, do you have any idea what that works out to at the current subsidy cost per passenger? (This refers to the Stockton-San Francisco and Modesto-San Francisco markets.

Answer. Subsidy cost per passenger in the Stockton-San Francisco and Modesto-San Francisco markets for the months of August are: Stockton-San Francisco, $60.95 and Modesto-San Francisco, $13.18.

Mr. MINETA. Now, in addition to simply not flying the 9:45 flight to Modesto last night—of which I am now a proud ticketholder—what has been the reliability of performance by Inland Empire in the last month?

Mr. MURPHY. Mr. Chairman, when we selected Inland Empire coming to these communities, at that time we did go out and do an audit. And our conclusion at that time was that they were an extremely sound carrier financially. They continued to be so, we feel, through 1982. At the beginning of 1983, the service started to decline rapidly. It has continued to decline, and the reliability, I would have to say, has been very unacceptable, especially this summer.

Because of that we found a replacement carrier for Visalia several weeks ago, and that carrier started service last week. We are working with Merced now on replacement service. And we have sent letters to Stockton and Modesto within the last week or two, asking them if they wanted us to start the process of trying to find a replacement carrier.

We have been a little hesitant to do that, because merely starting the process could be the end of Air Chaparral and then there would be no service for a couple of months while we tried to find another carrier. Frankly, we're not confident that we have another carrier out there right now ready to come in, in a matter of a few days; so, we could create a gap, a total gap in service, by merely starting to look for another carrier.

Mr. MINETA. And when was that original audit that you spoke of? When was that done?

Mr. MURPHY. I would have to say that was done early in 1982.

Mr. Mineta. Is it any wonder that nobody except me is willing to book on the San Francisco-Modesto or Stockton-San Francisco flights?

Mr. Murphy. No, sir.

Mr. Mineta. Now, with virtually nobody flying those routes, wouldn't it be accurate to say that we're just subsidizing them to subsidize them but nobody is being served by all of the expenditure?

Mr. Murphy. I would say we've gotten to that point today. I would like to hope that we were not in that position a few months ago, that all through 1982 the carrier did quite a reliable job and into the first few months of 1983. But today, no, we are not getting a good buy for our dollar at all, Mr. Chairman, not to San Francisco.

Mr. Mineta. In addition to everything else, are they being paid at the $316,000 annual rate, despite all the misflights?

Mr. Murphy. No, they're not, Mr. Chairman. Their rate is based on performance; every flight they don't perform they're not paid for.

Mr. Mineta. And how do we know that?

Mr. Murphy. They have to file a bill with us every month which indicates which flights were operated and which ones were not, and we pay on the basis of that. And there is an audit done, eventually, to confirm that they operated those flights.

Mr. Mineta. And how unreliable does it have to get before CAB pulls the plug?

Mr. Murphy. Well, I think we're already in that position, Mr. Chairman, as far as Merced. As I say we have not pulled the plug at Stockton and Modesto. I think we are at that point.

I might point out that we have gone further with this carrier than with any carrier in the Essential Service program. They filed for bankruptcy this winter. At that point we normally would have pulled the plug on a carrier. This carrier, however, came in, showed us their plans, led us to believe—and I think they believed at the time—that they could put it back together if they operated in chapter 11. Unfortunately for them and for us, apparently it hasn't worked. I'm sure, if we talked to them today, they still would believe they could put it back together.

That aircraft I flew in on last night was the first of three aircraft they expect to obtain in the next few weeks. Their corporate strategy now is to concentrate on Stockton-Modesto to San Francisco, and to try to get that up to a reliable point. And we were willing to go along with that, but I think we've reached the point where we just can't extend it any further.

Mr. Mineta. How do you rebuild that credibility?

Mr. Murphy. The only way you can do that is to get a quality carrier in there, like Pacific Express. Unfortunately, that is a carrier that comes with jet aircraft; but we have seen reliable carriers that don't necessarily operate jet aircraft, all over the country.

Mr. Coelho. I would like to just followup the chairman's question if I can.

Does Inland Empire have the ability to rebuild the credibility after it's been so destroyed?

Mr. MURPHY. It would be a Herculean job. I don't want to suggest that it couldn't be done, but I don't know whether they are up to it.

Mr. MINETA. From all of this I would conclude that air service that costs a little less to provide but which carries almost nobody is a bad buy. San Joaquin County-Stockton witnesses, I think, later will suggest, that in evaluating carrier proposals the Board should look at subsidy costs per passenger rather than at total subsidy cost.

I'm wondering, do you have any comments on that suggestion?

Mr. MURPHY. Yes, I do, Mr. Chairman.

There is a belief, I think, around the country, that we conduct a low-bid contract system when we select air carriers; that is, at the 100 subsidized communities that we always select the low bidder. As a matter of fact, there was testimony to that effect this summer on Capitol Hill by the aviation director of the State of Nebraska.

We went back and examined the record and found that in the State of Nebraska we had four carrier selection cases since deregulation, and in three of those four cases we selected the highest bidder.

I'm merely pointing that out to show that we do not just look at the bottom line subsidy, we are trying to get the best buy for the taxpayers. We are also trying to accommodate the communities' views and select a carrier that they would want. We're trying to look at a balancing of all of these factors. And I want to assure you, this is not a low-bid system.

Mr. MINETA. Mr. Coelho?

Mr. COELHO. Mr. Chairman, if you will yield.

Is it not also true, Mr. Murphy, that a high subsidy in the beginning might be more advantageous and more productive, in order to develop the credibility and viability of that airline in its relationship with the community; and so that a low-bid operation most of the time would guarantee failure, whereas a big subsidy or whatever might be the very thing that provides us with what we want?

Mr. MURPHY. That is absolutely correct. I think our two most successful communities in the country, one in Georgia and one in Massachusetts, are communities where we put in very heavy subsidy in one year. Two or three years later, we were providing no subsidy; in other words, they had developed into very substantial markets all by themselves.

Mr. COELHO. I would just like to make sure that people understand that at times I support subsidies, but I don't mean for them to become permanent subsidies. I mean a subsidy, basically, means that you're trying to provide the vehicle to get to where the market will dictate. And my question, basically, was directed to that, is that a legitimate subsidy might be the best thing to do in, a number of these cases, in order to get it to a market situation.

Mr. MURPHY. Absolutely. The statistics that we have indicate that Stockton, Modesto, Bakersfield—communities of that size—don't need subsidy long term; it's merely a matter of getting the right carrier into the market and these communities can take care of their own air service without federal intervention.

Mr. COELHO. I was intrigued—and I'm sorry, I was out of the room, I had to make a phone call; but in reading your statement just a minute ago, I noted your comments about United and the fact that it has opened up three new stations. And you say that this may be some good news and that United would be moving to reestablish some of its facilities and its service that it had in the past in more of these medium type communities.

Do you have any indication from United at all as to what their future plans are? And in line with that question, as United benefits from these medium-sized communities, feeding into their major hauls, does not United have some type of responsibility to help find these commuter airlines and help the CAB fulfill its obligations, so that it, United, also benefits?

Mr. MURPHY. In response to your first question, I did ask United that question last week, as to whether they had any intention of entering communities in the Valley. They could not give me an answer. They would not deny that they had such plans. They would not confirm. However, their corporate strategy is such that they are continuing to enter small communities, and one could always have one's fingers crossed, that they would enter some of the medium-sized communities out here in the Valley.

Mr. COELHO. I do not want to get technical in our terminology. When you say "small communities," you really mean medium communities?

Mr. MURPHY. Yes, I do. I mean communities like Bakersfield and Stockton.

As far as their obligation, the big carriers, have generally been of the attitude that they will try to locate the replacement carrier for us; but they do not get too close to that replacement carrier, for fear of being charged by other potential replacement carriers with antitrust behavior or anticompetitive behavior. So, they do not take a large role in trying to find replacement carriers; and certainly, once they have left the community, they take no role in the service provided there.

Finally, on the flip side of that is when they reenter small communities. That has an impact that will be felt throughout the State by the small carriers who are in Redding, and Eureka, Monterey, San Francisco. They are going to be displaced or they are going to have a hard time competing with United. United plays no role in helping those carriers find new markets or to adjust to the situation. And that is the concern that we have, that some of the carriers we're relying on today, who are just starting to do a good job, are going to be buffeted by United's latest moves.

Mr. COELHO. Well, with that "public-be-damned" attitude of United, it seems to me that we in the Congress should had concerned about decontrol substantially benefiting United. I have not looked at their profit situation but I imagine it's not anything that anybody would cry about, except maybe those of us that got hurt. But from their stockholders' point of view, it is probably very profitable. And maybe this is something that this subcommittee may want to look at. I don't know, but it seems to me that there is an obligation by these major carriers in the impact that they have on local communities and the impact that they have on these airlines who are serving that community. If they take away the ability of an airline to perform in a medium-sized community, it has a tremendous impact on that airline's ability to perform in a smaller community, which is of public concern. And it would seem to me that that is a question that should be pursued.

I would like to get into some other questions, if I can, Mr. Murphy. And before I do, it would be irresponsible on my part if I didn't publicly express to you and, if you would, to express to the Board members their very, very cooperative attitude in this period that we have had out here of 4 years, or 3½ or 4 years, of just absolute chaos and disaster. The Board has been extremely cooperative, very helpful. We have bugged the heck out of them and I know that particularly Mr. Smith gets tired of my staff's calls to him and so forth. But Mr. Smith has been a great representative for you out in this area and I want to put that on the record.

Mr. **Murphy**. Thank you.

Mr. **Coelho**. But your Board has also been very cooperative, and there are some communities who suggest that they're too cooperative with me, but I never think people are too cooperative with me.

I would like to ask a few other question if I can.

CAB, as you have indicated and as have others, has been criticized for picking losers to provide essential air service. In the instance of picking commuters that subsequently went out of business, did you have any other choices that, in hindsight, you may have done otherwise or you may have done better or who may have been a better commuter?

Mr. **Murphy**. First of all I think our continuing string of losers has been unique to California.

Mr. **Coelho**. That is what I have been assured.

Mr. **Murphy**. We have professional staff people who, I think, know as much about small community air service as anyone in the country. And generally, I think if we look back we find that at the time we selected these carriers they were, we think, the best bet around. In hindsight there are certain things we might have done. We had a good carrier, as the mayor mentioned a while ago, here in Modesto, Aspen Airways, that we brought in from Colorado while things were really hectic to provide some reliable service for a year or two. Maybe we should have enticed them to stay here.

Mr. **Coelho**. We tried.

Mr. **Murphy**. We tried. I mean we could have tried a little harder.

They were expensive, I might point out, too, that we spent a lot of subsidy dollars to get them to move in here. But I think, overall, there isn't a lot of second guessing that I would do. Carriers out here—we've always tried to pick the best ones but we just haven't had the quality of commuter carriers that we would like to see out here.

Mr. **Mineta**. Would the gentleman yield?

Mr. **Coelho**. Surely.

Mr. **Mineta**. I wonder, should the Board be able to better weed out financial or managerial weaknesses among carriers proposing EAS service? Should the fitness-finding process have been able to weed out some of the four Modesto carriers, for example, that went bankrupt, or was there simply no way to predict future problems at the time of the fitness findings?

Mr. **Murphy**. I think, at the time, that it was very hard for us to predict. And if I could explain that, first of all, at the time we picked Air Pacific we were quite new to this replacement process and we were replacing carriers all over the country. We've learned a lot.

Our next carrier we let, I think, was Golden Gate, a carrier that in terms of having deep financial pockets had them about as deep as one could want; but they still failed. And that was a situation where the gentleman who was putting in literally millions, I think he put in over $20 million of his own dollars into that, finally decided that he had had enough, and he left. Right up until the summer he left we had—I personally came out here and spent the day with him, and he assured us that in spite of the $20-plus million he had lost, he was going to stick with this and put it together. We had no reason to believe he was going to renege on that, but he did.

The other thing is we usually are faced with a situation like we have today with Stockton, Modesto, and Merced. If we allow Air Chaparral to be replaced, we're going to have a limited number of carriers to step forward, and we might all agree that of the four or five carriers that step forward, none of them are of the strength that we would want to rely upon. But nevertheless, our choices are to continue to rely on Air Chaparral. We would hope that we could pick the best one of these new carriers and he will make a go of it.

Mr. COELHO. Let me ask a question, Mr. Chairman.

Mr. MINETA. Go ahead.

Mr. COELHO. I just happen to think that we provide a big subsidy and develop the ridership and the credibility and so forth, and United looks at it and says, "Gee, that's a good little spot to go in there and pick, and we don't have to worry about reliability and credibility because we have it; we're a national-international airline." And they pop in and take over basically what has been developed by taxpayers and been developed by a small commuter airline.

Doesn't that cause you a great deal of problem, that they would have that ability to do that and they do?

Mr. MURPHY. I'm not too concerned with the aspect of that, that the subsidy dollars have developed big markets that they, then, jump into. They are reentering markets today that, historically, had traffic. Redding and Eureka, for example, where they've entered, are not markets where we've spent a lot of subsidy dollars the last few years; it's just that United has decided they now fit into their system. If they were to enter markets in the valley out here, I don't think anyone would argue it's because we've helped to develop those markets. Lord knows we haven't developed them. It would be because United has decided to go for the feed concept, that these medium-size communities out here once had the traffic and that they can get it back quickly because of their reputation.

Mr. COELHO. Let me ask: You are aware, of course, of the GAO study that was done on the essential air service, and they made two broad recommendations: the first one, that a temporary increase in subsidy to some points to improve traffic so that in the long run the subsidy would not be required, which we have discussed; the second one, to discontinue subsidies to communities unlikely to be able to support air service after 1988. I would like to have your comments on these recommendations, particularly the second one by GAO, and particularly whether they would have any applicability or benefit to the communities that we have discussed here this year.

Mr. MURPHY. The Board has reviewed those recommendations and supports them as matters of the essential service program. As far as the first concept, that is putting money up front to develop the market, I would like to think that our selection of Pacific Express to some extent is a seed of that concept. And that's the kind of thing that the GAO recommendation is aimed at. So, we do support that, Congressman.

Mr. COELHO. And I appreciate the Board's experiment in that area.

Mr. MURPHY. The second recommendation which, to some extent, is the flip side of that, is that if we put in the taxpayers' money to the extent of $700,000 a year in certain communities and it doesn't work, and we've had good, reliable service and we can all agree on that, do we then have an obligation to the taxpayers to cut the subsidy and to leave the community to surface transportation. The board also supports that.

We have some communities around the country who are just too close to hub airports and too small, and even in their peak years they only generated a handful of passengers. The board would like to provide some of them with an experiment, and if it doesn't work, then to say that the subsidy is no longer needed in those communities.

The problem, though—once again I have to get back to it—if we try some of those concepts in California, the first thing you have to do is find the right carrier; and it is just not an easy thing to do.

Mr. COELHO. I appreciate that. I happen to agree with your comments in both cases.

It has been suggested in the joint CAB-DOT study, completed in January of 1980, that a locality should share some of the cost of the subsidy program. It is my understanding that you have now, at CAB, changed your opinion in this matter.

Can you explain to me your past position and your current position in regard to subsidy-cost sharing?

Mr. MURPHY. We and the Department of Transportation did recommend cost-sharing one year after deregulation as a concept worth observing but not worth implementing until we have had a little more experience with this program.

Now that we've had the experience, the CAB at least has a draft position, if you will, before DOT. And that position is that at this time, based upon what we have learned, we are not aggressively supporting cost-sharing, the reasons being:

No. one, that we think that to some extent it would be inconsistent with the concept of guaranteed air service for ten years after deregulation. The Congress told these 700 communities, "You won't lose all your air service because of deregulation." If we make them share the subsidy cost, knowing the financial burden some of these cities have, we think that many of them will not be able to pay their share of the subsidy; they will opt out of the program and they will not have had their guaranteed service.

The second reason being the subsidy program is quite modest in terms of dollars; the budget in the lower 48 States was something on the order of $40 or $45 million per year. If we share at the rate of 10 percent, which is a figure used, I think, in highway programs, we are only talking about $4 million a year coming into the U.S. Treasury. Compared to the amount of redtape and loss of the guaranteed service, we at CAB don't think that that is really the kind of program where you need cost-sharing. It is not a billion-dollar federal program.

Mr. COELHO. I appreciate your comments very much.

And I might just say, Mr. Chairman, as far as this member is concerned this has been an excellent witness.

I appreciate your comments.

Mr. MURPHY. Thank you.

Mr. MINETA. Let me ask you, Mr. Murphy, about what United Air Lines is doing.

Is there a counter-trend now to bring service back to some of these Central Valley points or are we going to see those carriers that are in those communities where United is planning to go back in, carriers that are serving those communities, then making their move to Stockton, or Modesto, or Merced, Visalia, Bakersfield; or what is it that we might expect from what United is doing if they're not going to come specifically back into these points?

Mr. MURPHY. Well, first of all we have seen a trend around the country by some of the major carriers, some of them, to enter medium-size markets. As the major markets become more and more competitive, communities like Burlington, Vt., Portland, Maine, Eureka, Redding, are going to see jet service of a type they haven't seen for years. As the competition moves to medium-size cities the impact on the medium-size——

Mr. MINETA. Let me ask you, is there a definition as to what is a small community, medium-size community, large?

Mr. MURPHY. No. I don't have a particular definition in mind. When I say "medium," though, I guess that would be a community that would generate 80 or 100 passengers a day, something in that neighborhood.

We've seen these communities, some medium-size communities, getting more air service than they've ever had. Portland, Maine and Burlington, Vt., are two examples that jump right into my mind, and we're going to see some in California with Eureka——

Mr. MINETA. How large is Burlington?

Mr. MURPHY. Burlington is a small hub which was down to a situation 2 years ago where they were coming before the board asking for help, "Please help us retain a carrier." They had gotten down to one carrier and the service to the prime market, Boston, was down to commuter service. Today they have service. Their airport manager is so elated. They have Peoples Express, I think they have United Airlines, they have U.S. Air, Delta; they have more service than they've ever had.

Mr. COELHO. What is the size of the population?

Mr. MURPHY. I don't know.

Mr. COELHO. What would you estimate?

Mr. MURPHY. 100,000 people perhaps.

But the second part of your question, what happens to the medium-size communities that don't receive that kind of service, there are two ways that could trend and I don't know what the trend would be. But I have a concern for one of them, and that is that it will hurt the medium-size carriers that have moved into the medium-size cities; and although they will try to go to other medium-size cities to make up the traffic, they will be, as a bottom-line matter, hurt. And, therefore, other medium-size cities may feel a negative impact.

Mr. **Mineta**. Now, for each of the following points, Stockton, Modesto, Merced, and Visalia, I would like to have you provide the record the current data on: the number of seats subsidized, amount of subsidy, number of passengers filling those seats, and the subsidy cost per passenger.

Mr. **Murphy**. I certainly will.

[The question posed to Mr. Murphy and response follow:]

Question. Now, for each of the following points, Stockton, Merced, and Visalia, I would like to have you provide the record the current data on: the number of seats subsidized, amount of subsidy, number of passengers filling those seats, and the subsidy cost per passenger.

Answer. In tabular form below are the data for each of the points for August 1983, with the exception of Merced. We have substituted July data for Merced because of the suspension of service to this point by Air Chaparral in early August. The difference between the maximum subsidy available in August and paid subsidy generally reflects the failure of the subsidized carrier to meet flight frequency requirements.

City-pair	Maximum annual subsidy [1]	Maximum subsidy rate for August [2]	Subsidy actually received in August [3]	Subsidy difference actual less maximum
Stockton and Modesto-Los Angeles	$432,939	$37,346	$37,346	0
Stockton-San Francisco	436,608	54,727	34,435	($20,292)
Modesto-San Francisco	151,128	18,943	12,451	(6,492)
Merced [4]	435,620	36,998	19,423	(17,575)
Visalia [5]	436,454	26,494	26,494	0

[1] Contractual annual rate ceiling.
[2] Unit rate developed for annual period, times service pattern required for August 1983.
[3] Substitution of larger aircraft than required may show provided seats greater than minimum required seats. Failure to meet frequency requirements will show as differential between maximum and received subsidy rate.
[4] Data for July 1983; service suspended in early August.
[5] Estimated share of advance subsidy paid to Wings West, with preliminary August traffic levels.

City-pair	Minimum required seats for August [1]	Provided seats in August [2]	Origin-destination passengers in August	Subsidy per passenger in August
Stockton and Modesto-Los Angeles	8,256	11,221	6,940	$5.38
Stockton-San Francisco	1,860	2,334	565	60.95
Modesto-San Francisco	1,860	2,466	945	13.18
Merced [3]	1,836	1,417	837	27.67
Visalia [4]	3,720	NA	941	22.43

[1] Subsidy rates are constructed on aircraft mile or available seat-mile basis. Listed seats are from minimum EAS seat and flight requirements.
[2] Substitution of larger aircraft than required may show provided seats greater than minimum required seats. Failure to meet frequency requirements will show as differential between maximum and received subsidy rate.
[3] Data for July 1983; service suspended in early August.
[4] Estimated share of advance subsidy paid to Wings West, with preliminary August traffic levels.

Mr. **Mineta**. Mr. Murphy, what is the problem in the Modesto-San Francisco and Stockton-San Francisco markets: Is it that they are just too close to San Francisco and air service is just not going to be able to compete with the highway? Is it that we shouldn't be designating San Francisco as a hub for those cities? Is it that the Board made a reasonable carrier selection but it just happened to go bad lately? Is it that the Board overlooked clear signs of trouble with Inland Empire and should have never made that selection in the first place? Is it that Stockton and Modesto should pool their services at one airport? Is there anything that you can say is exactly the problem?

Mr. MURPHY. I think I have some pretty firm views on that, Mr. Chairman. No. 1, I firmly believe that Stockton and Modesto to San Francisco is clearly a market that is large enough to support unsubsidized, good commuter air service. That does not mean, necessarily, jet service. That might mean service with 18, 19, or up to 30-seat aircraft but on a high-frequency basis, the kind of thing that we are now seeing developed between Bakersfield and Los Angeles. I looked in the "Official Airline Guide" the other day, and they are up to 16 flights a day. I believe that is nonstop from Bakersfield to Los Angeles.

That's the kind of service Stockton and Modesto could support, but we have a couple of problems to getting there. No. 1, the fare structure is low. It's hard for commuters to remain viable; so, fares may have to move up somewhat. Second, we just haven't had a good, strong commuter step forward. The third factor, although I don't think a factor that will be decisional, is that to some extent people can drive to Sacramento and San Francisco, but I don't think that that drive is so short as to preclude good air service to these communities.

The final issue that you touched on, the consolidation of airports, I know that it is a tender local issue out here. To some extent these airports, Stockton and Modesto, compete with each other. It is possible that by consolidating the air service and the traffic, you could develop a better service for the area as a whole. But that is an issue that the communities, to some extent, hold in their hand; they're both guaranteed air service and the board is not legally able to take that away from either one of them.

Mr. MINETA. Going back to an earlier point made by Congressman Coelho, though, maybe in the early stages of that, of trying to develop that, you have to increase the amount of subsidy in order to make it attractive, and then phase it out, phase it downward in the longer run.

Mr. MURPHY. Yes.

Mr. MINETA. There is nothing to prevent you from doing that; is that correct?

Mr. MURPHY. That is correct. That is correct.

The only reason, I guess, we haven't done that nationwide is that generally the program is one of bringing commuters who take over with small equipment to maintain the market. But these are not those small communities; and, therefore, that up-front money concept that we think is working in Stockton and Modesto, we may have to use it in the San Francisco market as well.

Mr. COELHO. Mr. Chairman.

Mr. MINETA. Mr. Coelho?

Mr. COELHO. I know the Board, Mr. Murphy, has paid a lot of attention to the problems of the valley now. And as I indicated, I appreciate that. Also, the Chairman and Mr. Smith, I notice, have indicated that maybe what we need to do is do some type of program or whatever it is to get this particular part of the country stimulated in regards to air traffic service.

Have you considered that at any level, about what really needs to be done here as a special area of concern?

You have repeatedly said that the type of problems we have here are peculiar only to this area. The Board Chairman has told me that; other members of the Board have told me that; Mr. Smith has told me that; everybody keeps telling me that.

If that is true, then should you not consider some type of special program to turn this situation around, if it is such a problem that only exists out here?

Mr. MURPHY. We have considered some unique solutions out here that we have not made public. I might point out the primary one that we were considering just in the last few weeks, and that is if we don't have the commuters out here that are capable at this time, maybe we ought to, with Federal dollars, open up our checkbook and bring back in the major kind of airlines to the valley. We estimate the subsidy to do that would be in the $6 million to $8 million range per year. That is strictly a guess. To some extent the carrier will dictate how much he wants to come in.

There is a tremendous downside to that, however, and that is that all the carriers who are struggling to make a go of it here are going to be harmed if not put out of business by that kind of move. Second, United or some other major carrier might be planning to do just that thing anyhow in the very near future. And the third thing is we may only be putting off the transition that is ultimately going to have to happen to the marketplace in the valley. Maybe putting it off is a good idea, maybe we need to put it off for another year or two until commuters develop outside the valley. But eventually we're going to, presumably, stop subsidizing service and these communities will have to stand on their own.

Mr. COELHO. Mr. Murphy, what about the possibility of Pacific Express doing a great job here in Modesto and everybody is very pleased? Why could not consideration be given to Pacific Express becoming a major facility for the San Joaquin Valley? Has that been discussed or pursued, or is that a possibility at all?

Mr. MURPHY. We have not discussed or pursued that, but I think that idea is consistent with my idea, perhaps attracting a major carrier. And the other idea is to take the best one we have and to underwrite him, and to make sure that he can do the job that we want out here. That would be another variation.

Mr. COELHO. Because what you have at this point is you have Pacific Express in Stockton, and Modesto. I don't know if they are in Bakersfield, but——

Mr. MURPHY. They are.

Mr. COELHO. I assume they are.

They're in Bakersfield, so what you basically have left is——

Are they in Fresno? Probably?

OK, they are in Fresno. So, basically what you have left is Visalia and Merced, and then you basically take care of the valley. It would seem that it is something that should be pursued with Pacific Express in trying to encourage them to provide this type of service throughout the whole valley, and let them become and be considered the valley service. And if we could reestablish the ridership again, then I think everything moves in the right direction and this increased subsidy for Pacific Express to take care of Merced and Visalia, I think, would be a positive one.

And I might say, also, in regards to the case of Merced, you are not talking about displacing any reliable commuter airline by doing that. There is nobody, at this point in Merced, who is doing the job that needs to be done, so you're not in competition with anybody in doing that. I can't speak for Visalia, but I assume they are in the same situation.

And unless Wings West that you have down there now, or something——

Mr. MURPHY. Yes. They just went in there.

Mr. COELHO. They just went in there.

Well, it seems to me you have Pacific Express already in here in the major parts, that in the other parts of the valley it might not be a bad idea to pursue it.

Mr. MURPHY. I share that.

I would point out one of the dilemmas we might have if we pursue that: The carrier is not limited merely to the valley; they operate up into Oregon and into Washington. To the extent they are losing money systemwide, our supporting them, perhaps as a chosen instrument, if you will, to reestablish service in the valley, we're going to have to keep that as a corporate entity healthy. And we've seen situations where we can be trapped into having to prop up an entire airline.

Mr. COELHO. I think that fits into the overall proposition that we've discussed here, that maybe we do need, in the early stages, to provide a substantial subsidy for them to provide what needs to be done, so that they don't hurt themselves corporatewide, and give these communities a chance to prove that, yes, they can provide the necessary ridership. I think that most of us would agree that if the communities cannot provide a good, reliable ridership, then the question has to be asked: Does that community deserve subsidized, in any way, airline service?

But it's sort of like a chicken and an egg. I would like to see at least CAB and us crack the egg and not worry about who came first.

Mr. MURPHY. Well, we'll certainly take a look at that concept.

Mr. COELHO. Thank you, Mr. Chairman.

Mr. MINETA. On page 8 of your testimony, you mention common fares. Of course, this refers to the time when United was serving many of these points here in the valley and the traveler got the flight to Los Angeles or San Francisco basically for free, to go to a beyond point out of either Los Angeles or San Francisco; is that correct?

Mr. MURPHY. That is correct.

Mr. MINETA. Now, at present, given the joint fares, how much more than the fare out of San Francisco is typically paid by someone in Modesto, or Stockton, or Merced, flying to San Francisco and then on to their final destination?

Mr. MURPHY. $35 or $40, John Smith tells me, is the add-on, if you will, flying out of these local communities.

Mr. **Mineta**. So, how much of the enplanement declines that we've seen in the central valley can be attributed to that $35 or $40 price increase?

Mr. **Murphy**. I think some significant percentage can be attributed to that. A person has to consider, today, $35 or $40 to drive to a hub airport. Obviously, for some it would be worth it and for others not; but that is a real factor.

Mr. **Mineta**. How much is van service to San Francisco, Mr. Murphy; do you know?

Mr. **Murphy**. $21.

Mr. **Mineta**. $21.

I have no further questions.

Mr. Schoellhamer?

Mr. **Schoellhamer**. No.

Mr. **Mineta**. Mr. Traynham?

Mr. **Traynham**. No.

Mr. **Mineta**. Mr. Coelho, do you have any further questions?

Mr. **Coelho**. No, Mr. Chairman.

Mr. **Mineta**. Mr. Murphy, let me add my congratulations to your efforts, the Board's efforts, on behalf of the valley points. I know it is a very difficult position to be in, especially when you say, "well, maybe we could do this at a cost of $6 to $8 million in subsidies," when we know that subsidy is about a 1.8 or 1.6 million for valley points right now.

Mr. **Murphy**. It was zero at the time it was enacted.

Mr. **Mineta**. It was zero, right.

So, I think what this does require, as Mr. Coelho says, is the best thinking caps that all of us might be able to put on in order to help these communities. But again I would like to thank you and Mr. Smith for your presence as well as for your enlightening our subcommittee in the start of these hearings.

Mr. **Murphy**. Thank you, Mr. Chairman.

Mr. **Mineta**. They are very important. Thank you.

At this time I'm very pleased to call on someone who may be licking his chops at all of what he has heard so far. I would like to call on Mr. Fred Davis, vice president of Pacific Express Airlines. We were scheduled to have Mr. Stanley Cobb, the president of Pacific Express. Unfortunately, we could not have him.

But we are very pleased to have you, Mr. Davis, with us today.

Mr. Davis, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF FREDERICK DAVIS, SENIOR VICE PRESIDENT, PACIFIC EXPRESS, INC.

Chairman Mineta, Congressman Coelho, my name is Frederick Davis, and I am Senior Vice President of Pacific Express, Inc. Thank you for coming to Modesto to hear testimony and gather information concerning small community air service in California and the West. Pacific Express is a post deregulation airline based in Chico, California which is providing jet service to San Francisco, Los Angeles, Portland, and a number of medium and small cities in California and Oregon. The airline operates nine leased 78 seat BAC-111 twin jet aircraft.

Pacific Express began jet service in early 1982, just six months after the illegal controller strike caused the FAA to limit takeoffs and landings at major airports. The original business plan of the airline was to provide high frequency, low fare services in the Los Angeles-San Francisco corridor and on short haul routes which feed the corridor.

Because slots at Los Angeles were not initially available, the first routes Pacific Express established were between San Franscisco, Portland, Medford, Boise, Chico, San Jose, Oakland, and Palm Springs. In April and May 1982, Los Angeles and Stockton were added.

By late 1982 the Board of Directors realized that the combination of computer reservation bias, anticompetitive practices, and the relatively high seat mile cost of the BAC-111 aircraft made it impossible to compete successfully against United and other large carriers in the corridor. Management was changed in November 1982 and in February 1983, Pacific Express modified its route structure to focus on short haul, smaller cities in a hub and spoke pattern around San Francisco. These underserved markets had, before deregulation, received jet service. Since deregulation, these cities suffered drastic shifts in service. First, United Airlines terminated or cut back its B-737 service to the Central California cities. Then the major replacement commuter in the area, Golden Gate, went bankrupt. More recently, Golden West has ceased operations and Inland Empire and Pacific Coast have gone into Chapter 11.

In addition to Boise, Portland, San Francisco, San Jose, Los Angeles, and Palm Springs, Pacific Express now services Fresno, Bakersfield, Stockton, Modesto, Monterey, Santa Barbara, Redding, Klamath Falls, and Redmond/Bend. It has also added Las Vegas and Reno to its service pattern.

The Stockton and Modesto service to Los Angeles is currently subsidized by the CAB under the Section 419 program. We believe that this subsidy will be needed only for a one or two year transition period. When United pulled its jet service out of Stockton and Modesto in 1979 and 1980, traffic fell off. People developed new travel habits. It will take time to attract people back to air service. Early results are quite encouraging. When we entered the Modesto market in April, we projected that the two cities would produce 60,000 O & D passengers in our first year of Los Angeles service. It now appears that traffic will reach 64,000. In the previous ten years, O & D had not exceeded 50,000 in any year.

Since February 1983, Pacific Express has brought dependable, on time jet service to the Central California valley cities. Its completion rate has averaged 98.3 percent and since April it has been on time within fifteen minutes on 86 percent of its flights.

Financially, the new route structure is fulfilling our expectations. In 1982, under the old business plan, the airline lost approximately $1.5 million per month. Since the February restructuring, our losses have dropped gradually and in July Pacific Express achieved its first operating and net profit. We project that the last half of the year will be profitable.

Pacific Express plans to continue and expand its service to previously underserved cities. We have applied to the CAB for the Calgary/Edmonton/Spokane route. We recently began flying to Klamath Falls and Redmond/Bend as subcontractors for Republic. At present, there is not enough traffic at the two cities to support unsubsidized service. If the CAB opens the 419 case for new bids, Pacific Express will submit a proposal to provide long term service at Redmond and Klamath Falls.

Medium sized cities in California have had a difficult four years. We believe that as Pacific Express expands and prospers it can provide the dependable short haul jet service to medium sized cities in the West which has been missing since United and others abandoned these markets.

The major problem we foresee is the control by United Airlines of the computerized reservation service that is the principal marketing tool for travel agents in this region—Apollo.

During the year that we competed with United in the Los Angeles-San Francisco-Portland corridor, we had a number of problems with Apollo. In Portland 70 percent of the travel agents use the Apollo system to check schedules, fares and seat availability and to book and ticket flights; in San Francisco, 60 percent of the agents use Apollo. Apollo is the dominant system in this region. United receives regular reports from Apollo of the bookings and sales made by each travel agent in each market on Pacific Express. It can use, and we believe it has used this information to target pressures and special incentives on agents who were booking passengers on Pacific Express to get them to shift passengers to United. Despite our requests for them, United will not furnish such reports to Pacific Express.

In the markets in which we compete with United we have had serious problems with erroneous information in Apollo. In October 1982, our Portland-Boise and Portland-SFO flights were shown as sold out for a number of days when seats were actually available. In January 1983, all Pacific Express flights in the Portland area were shown as sold out when, in fact, seats were available. When Pacific Express entered

Monterey, Apollo carried correct availability information for MRY-SFO flights—a market which United doesn't serve. But, in the Monterey-Los Angeles market in which we compete with United, our flights were incorrectly shown as sold out. I could go on and on.

In February 1983, as we were establishing after our new route structure and we were competing against United in fewer markets, we contacted United to discuss the possibility of a partnership feed agreement. We said that we wanted to reduce the high Apollo fees, and we suggested a schedule of flights from cities not served by United which would meet United's banks at SFO. United expressed interest in working with us but rejected our first proposed schedule. United then submitted its own proposal for a Pacific Express schedule. Under United's proposed schedule, the aircraft of Pacific Express would have been unable to operate in the markets in which we still compete with United. When we rejected the proposal, United asked us to prepare and submit a connecting schedule for service from Fresno, Monterey and Redding to San Francisco. We were also asked to consider new service from Pasco to San Francisco.

When in June we submitted a new schedule proposal that provided sixteen connections for United at San Francisco, we also advised United that we thought our entry into Eureka would be more beneficial than adding Pasco. We were told that the proposed schedule met all of United's criteria and were asked whether Pacific Express planned to expand back into the San Francisco-Los Angeles market. We said we were looking for the most profitable route system we could develop and could make no promises concerning future routes. A few days later, United rejected our proposed schedule and broke off negotiations.

Less than a month later, United announced that it would start new service September 8 between San Francisco and Monterey, Fresno, Redding and Eureka—with a schedule quite similar to the schedule we had proposed to them.

United is free, of course, to enter any market, and we're prepared to compete with United of its new routes. However, the significant competitive edge which control of Apollo gives United causes us serious concern.

We have intitated new negotiations with United concerning our Apollo agreement. They have agreed to lower the fees and to lease an Apollo unit to us so that we can monitor displays for accuracy.

Notwithstanding resolution of the fee and access problems it is vitally important that the use of our marketing information by United be stopped. United will not agree either to stop using our sales information or to provide to us United sales information comparable to the Pacific Express sales information they now use against us and display bias in Apollo will continue to favor United in the markets in which we compete. We could refuse to continue our participation in Apollo. But if our schedules, fares and seat availability were not shown there, Pacific Express would be at a serious competitive disadvantage—particularly in the markets in which it competes with United.

We commend this Committee for the serious attention it is giving to this important problem. Pacific Express has joined with ten other carriers in urging the Civil Aeronautics Board to take expeditious action under Section 411 to try to end the unfair competitive and deceptive practices now occurring in carrier owned computerized reservation services. We hope that you will continue to press the CAB for action.

But, the only fully effective remedy for these problems is divestiture. There is a fundamental structural problem in the industry when one air transportation company controls the marketing outlets of its competitors. We are hopeful that the current Justice Department investigation will result in divestiture action.

In summary, Mr. Chairman, Pacific Express is now serving more California cities than any other airline. We plan to continue to provide and expand service to previous under-served markets in the West. If the Federal government takes appropriate steps to preserve competition in air transportation by ending the current anticompetitive use of computerized reservation systems by large air carriers, you can continue to provide this much needed service in California and the West.

Thank you for the opportunity to testify.

Mr. MINETA. Please proceed.

TESTIMONY OF FREDERICK DAVIS, SENIOR VICE PRESIDENT, PACIFIC EXPRESS, INC.

Mr. DAVIS. Thank you, Mr. Chairman, Congressman, staff, other guests. I feel very honored to be here today in Modesto. Mr. Cobb, unfortunately, is meeting with bankers, working on our expansion plan. We are trying to get additional aircraft to meet the growth that we've experienced in recent months. I'm very honored to be here.

I am considered, at Pacific Express, as the father of the valley plan; so, I think I can speak well to that. My background is very long in the airline business. I started in college with PSA. I'm a native Californian. I spent 12 years building Air California and came to Pacific Express as one of the founders. So, I understand the needs of the California marketplace and of the West as well.

We have presented to the committee a typed statement. It was also available for others. I will basically summarize our statement and our position and then be available for questions.

As has come out in the hearings, Pacific Express is an all-jet airline serving 21 cities in four States today. We began service as an outgrowth of deregulation. If there had not been a deregulation act in 1978, there would be no Pacific Express. In 1982, we fought the fare wars up and down the coast and basically lost. And in 1983, we repositioned the airline to go into markets that we felt were unserved and underserved, where a jet carrier could go and carve its niche, be successful, and return a profit to the shareholders.

In this regard, since December, we have provided replacement service in the following markets: Fresno-San Francisco, we replaced Air Cal; Fresno-Los Angeles, we replaced Air Cal; Fresno-Reno, we replaced Frontier; Monterey-San Francisco, we replaced Air Cal and Golden West; Monterey-Los Angeles, we replaced Air Cal; Santa Barbara-San Francisco, we replaced Golden West; Las Vegas-Reno, we replaced Air Cal. We have a route that goes from San Francisco, to Redding, to Klamath Falls, to Redmond, to Portland, and we replaced Republic on that route. We have brought back jet service to Stockton, Chico, Modesto, and Bakersfield, to their California points.

In providing this service we had found two things very important to the development of passenger air travel. We found that direct replacements provides instant passenger response. When a carrier dropped service on April 24 and we started on April 25, basically flying a jet airplane at the same time, at the same fares, we found that there was no traffic loss, that those passengers who would have shown up for an Air Cal or Republic flight now showed up for our flight. We have found, also, that the longer the lag between the abandonment of service and the startup of a new service, the greater the period would take to produce back the traffic. In the case of Bakersfield-San Francisco, where they had gone 3 years without jet service, from Modesto to Los Angeles, Stockton to Los Angeles, we had found that it has taken a longer period of time and more marketing dollars to get the customer back to their local airport to use the air service that is provided by Pacific Express.

We are gratified to hear that the communities believe that our marketing is working. We believe it is. We look at our passenger totals: Traffic is increasing every month. And in July we have a 95,000 passenger total, and we had our first profitable month. The company is not over capitalized but we do have more money in the bank than Air California at the present time, so we believe that we can meet the needs of the future.

We need a partner to share our risk in going into the small communities. And we have found that there are two ways that we can subsidize this risk, and that is through Government subsidy of direct payment like we're receiving in the case of Modesto and Stockton service to Los Angeles, a passthrough subsidy that we're getting via Republic in serving the central Oregon cities, and what we call cross subsidy, which Mr. Murphy of the CAB mentioned. Cross subsidy is where you use the profits on your profitable routes to offset the losses on your new routes that you hope will grow.

Pacific Express has gone from 1½ million a month loss to a profitability factor in 6 short months. We have done that by shifting our niche in the marketplace and going into the markets that needed our service. We have a master plan for the Modesto-Stockton area. We presented it to Stockton 3 months ago and to Modesto at the time of our entry. And our plan is to build both markets to a point where we can split the two off and provide independent service to each city.

Congressman Mineta, you'll be familiar with that. It has happened in San Jose and Oakland over the years. Air Cal and PSA provide a combined service from Ontario, Orange County, Long Beach, and Burbank, to the San Jose-Oakland air points jointly. And after the traffic grew to a point where the markets were large enough, both airports received their own direct nonstop service to the southern California points. That is our exact plan for Modesto and Stockton.

The major problems that loom in our future are dedicated airport space in San Francisco, San Jose, and Los Angeles. It is virtually impossible for a new carrier to get a ticket counter, gate area, and ramp area for their own use where you could use your own employees. We are forced at the present time, in these three airports, to subcontract through larger carriers, and, in many cases, have to use their employees to provide our services at a much higher cost than what we would pay our own employees. Of course, this cost is passed on in the way of fares to the customer, and that makes us less responsive to the competitive demands in the marketplace.

The second factor that has already been brought up by Congressman Coelho is competitive service in short-haul profit cities. We have gone into some cities and became profitable very quickly; Monterey-San Francisco is an example and Fresno-San Francisco. And we now know that United Airlines is going to go back into those markets. But that is what deregulation is all about. A carrier has a right to enter or leave a market, depending on the whim of the marketplace. The only problem we have in competing with United Airlines is through their reservation system that they call Apollo. The biases set forth in that system create a problem for us in the remainder of our network. If we are unable to produce profits in the remainder of our network to cross-subsidize the entry into the valley cities, then we will have to depend upon subsidy, not only in the valley cities but in other cities, to keep us going.

The problems that we have had with the Apollo network: We have missing flight listings, we have incorrect fares, we have flights being shown as sold-out when they are not sold out. We have sales reports that are unable to be given to us but are available to the United sales personnel; so, the United sales personnel know exactly how many bookings we are doing through every travel agency.

We are not of the same stature in the Apollo reservation system as United or as a cohost airline, which, in many cases, are the commuters; and, so, the travel agent has many times to look for a flight before they can book that flight. Recently, United announced they were starting Fresno-San Francisco service. The very next day our 620 flight from Fresno to San Francisco was no longer in the Apollo computer. Amazing. We called United and they said it was an oversight, and it is now back in the system.

We believe that we can compete with any carrier: We're on time, reliable, we're dependable, and our in-flight service, as Hurt King says, is the best on the west coast. We believe that we strive through very motivated employees to do a good job. We're nothing more than people serving people; 85 percent of our employees are shareholders of Pacific Express. Their future is based on their ability to do the job.

Pacific Express has gone far in a short time; 95,000 passengers in 1 month is a record for us and also profitable. We've brought back reliable jet service to the valley. We stand ready to expand and meet the needs of our communities. And we know that if we meet these needs and can be flexible, we will continue to be profitable in this competitive environment.

Mr. MINETA. Mr. Davis, thank you very much for your initiative and leadership in putting together Pacific Express as well as the expansion of the service, and, frankly, the success you are now finding.

Let me just touch a bit on this point about the computer reservation system, because we did go through a long hearing on this. And our subcommittee has written, as you probably know, to the Civil Aeronautics Board about our concerns as a result of what we heard at those hearings. And they are now undertaking through a section 411, rulemaking procedure to look at this whole computer reservation system.

Besides the loss of Flight 620 in the Apollo system, what kind of charges is United imposing on you to be a part of their reservation system?

And are you a part of any other computer system, such as Sabre?

Mr. DAVIS. We have contracted to be a subscriber to Apollo, Sabre, and, through a working relationship we have with United, we are also listed in Parr's. We're listed in Eastern's and Delta's system with no charge. Initially when we met with United, a year and a half ago, we were offered what they called an industry rate, and it was $3 per transaction into the Apollo system, with a 10-percent increase every 6 months. At the time they said we had no track record in developing traffic to United and they would review this over a period of time and determine if this rate should change.

Last week we were able to conclude negotiations with United, where we are able now to lower that fee to $1.50 per booking; which we believe is very reasonable for our part, for we believe that this service that they provide to the travel agent is very important. Sixty percent of our bookings go through travel agents, and we believe that we need to be in the Apollo system. And we would like to have had a lower rate, we would have liked to have the rate that Muse Air or some of the other carriers get; but we were able to negotiate $1.50 compared to a rate of $3.63.

Mr. MINETA. Muse Air doesn't compete head-to-head with United Airlines, so they'd be willing to put them on their computer at a lower rate.

Mr. DAVIS. That's very possible.

We had hoped that the interline traffic that we've been able to develop and feed to United, which will be in excess of $3 million this year, was a motivator in having United try to work more marketing programs with Pacific Express.

Mr. MINETA. How much was that?

Mr. DAVIS. We want to interline $3 million worth of traffic with United this year, based on the first 6 months.

Mr. MINETA. But by the same token, they can get information from the computer reservation system that says, "Uh-huh, that Pacific Express has these routes, they're doing pretty well on them; gee, maybe we'd do better to go back in and look at those markets ourselves."

Mr. DAVIS. That is very possible. But our only option we would have would be to say, "We do not want to be in Apollo and expose ourselves to United." And the travel agents in Modesto, in Stockton, in Fresno, in Redding, in Bakersfield, are predominantly Apollo. We can't go into these markets and not be able to show ourselves in the CRT and not be able to sell. So, we have to take that situation as it is. Our only concern is the fact that we are not treated what we believe to be in a reasonable way and in an anticompetitive manner in our way of thinking.

Mr. MINETA. Well, it is that kind of thing that prompted us to write the letter to the CAB and suggest they undertake a 411 rulemaking, because of the potential for tremendous abuse though those two systems, Apollo and Sabre—Sabre, owned by American Airlines, Apollo by United Airlines. Those two alone occupy about 80 percent of the total market on computers.

Mr. COELHO. Mr. Chairman.

Mr. MINETA. Mr. Coelho?

Mr. COELHO. I would like to, at this point, applaud you for your efforts in that regard. One of my concerns, also, is that, as we heard Mr. Murphy with CAB say, that United is not interested in sitting down with and helping CAB develop feeder airlines or airlines that would provide assistance to situations like Merced and Modesto, but we see that through the computer system that United, in effect, has the tremendous advantage in being able to have an adverse impact not only on the airlines but on the communities that are involved. It may not be antitrust violations, but I don't know what it is. It seems to be just as bad if not much more so than if they had sat down with the CAB and tried to help out. And I appreciate the leadership that you are providing to this whole area, because I think it is one of the major problems that we have in trying to develop this type of service.

Mr. MINETA. The important thing about deregulation is that all of us have the ability to play on a flat field. And if it is tilted against us, then it is not going to work. And an essential part of that being a flat field is the computer reservation system, because so many people rely on it travel agents rely on it. And if it is tilted against a carrier like Pacific Express or any others, then deregulation will not work.

Mr. Davis, when you were designated as the Essential Air Service carrier from Modesto to Los Angeles, you told the board that you thought sufficient traffic could be generated so that after 1 year service could be provided without subsidy. Is that still your assessment? And how much of an increase in traffic will be required to provide service without subsidy? And was this also something that might also apply for Modesto to San Francisco?

Mr. DAVIS. We believe at this time, based on our traffic results for April, May, June, and July, that by July of next year we probably won't need subsidy in the Modesto market. The traffic response has been very good. While at the same time we've increased our traffic month by month in Modesto, our traffic in Stockton has fallen off from last year. We are finding since there is jet service at Modesto versus propeller service last year with Aspen, that the customer who was particular in their travel needs and went to Stockton to fly Pacific Express are now staying in Modesto and flying Pacific Express. In total the two markets are exceeding our projections. In my testimony I said we were looking at 40,000 passengers for the year for the two markets, and right now it's our best estimate that we will hit close to 46,000 passengers for the two markets to Los Angeles. And in regards to the San Francisco situation, we are ready, willing, and able to provide service from Modesto and Stockton to San Francisco with two round trips a day at the present subsidy rate. We could start on Monday if we had to.

Mr. MINETA. The charge would be no different than Inland Empire?

Mr. DAVIS. Our fares would probably a little bit lower, and I think they are lower right now.

Mr. MINETA. And what about subsidy costs?

Mr. DAVIS. Well, without looking at the total cost of operation, just hearing what the subsidy figures were today by Mr. Murphy, I know that we could easily operate two jet round trips a day at that rate for the first year.

Mr. MINETA. Mr. Coelho?

Mr. COELHO. Why don't you?

Mr. DAVIS. Well, they were selected as the carrier and have been performing the service. And the CAB has not asked for other carriers to submit proposals to replace Inland Empire.

Mr. COELHO. Have you talked to CAB about doing it?

Mr. DAVIS. Yes; we talked to the CAB about 3 or 4 weeks ago when it looked like Inland was going to go out of business. We called them and told them we were ready to put in the service as a replacement carrier.

Mr. COELHO. So, you have contacted them with your willingness to go ahead and provide the service, and you think you can do it at a lower subsidized rate?

Mr. DAVIS. We actually jumped the gun. We put out notice to all the travel agents that we would accept Inland Empire's tickets, because we thought they had gone out of business. They weren't flying air flights that day. We had a little egg on our face.

Mr. COELHO. A lot of people think they have gone out of business.

Mr. Davis. We did contact our regional director for the CAB, and they are aware of our desires to provide the service.

Mr. Coelho. Mr. Chairman, I don't know if it would be appropriate, but I would hope that we could informally, or formally, go back to the CAB at some point and ask about this. Because this seems to me to be the crux of the whole matter.

I would also like to ask Mr. Davis——

There has been local controversy, as I am sure you are well aware of, about the regional airport between Stockton and Modesto. I happen to be an advocate of the point of view that there can be good service at both facilities and that there is no need to have a regional airport. Modesto folks feel that they could provide the regional facility and Stockton feels that they can provide the regional facility. And the only compromise is to put an airport in between, and that is no compromise.

So, what I hear you saying, though, is that you basically feel that you can end up in a situation where you would provide separate service for both facilities for the Los Angeles market; is that not what I heard you say?

Mr. Davis. Our business plan at the present time shows that by next summer Modesto and Stockton would get some flights during peak periods, mornings, evenings, and weekends, where the airplane would not be serving both Stockton and Modesto but they would have their own turnaround service to Los Angeles. Again, that is based on the premise that traffic would continue to grow, we will continue to come out of the recession, and employment rates will better here, in Stanislaus, and in San Joaquin Counties.

Mr. Coelho. But the unemployment rates the way they are right now in Modesto and Stanislaus and the whole valley, it's got to go up or it's got to go down, unemployment has got to go down, and conditions have got to go up; there's just no other way for them to go.

Let me ask you, in regards to my comments to Mr. Murphy and my question to Mr. Murphy about your airline being involved in the Merced situation, have you thought about that? Are those the only two places in the valley that you are not in right now, Visalia and Merced? Have you considered going into Merced and providing the service that they would like to have and so forth in there, and have you considered what subsidized rates you would need, et cetera? Have you considered that in any way?

Mr. Davis. Up to January of this year, our holding company on two airlines, Pacific Express and West Air. And West Air is a commuter airline providing frequent service throughout northern California. And West Air was an applicant to provide service to Merced—or from Merced—to San Francisco, and also from Modesto. At the same time Pacific Express asked for the Stockton-Los Angeles service. The major drawback to West Air's application was that they flew eight-passenger aircraft. The CAB, I think, believed that a 19-passenger airplane that was being proposed by Inland was the superior aircraft. West Air, even though it does fly smaller airplanes, has a very good record in the markets that it serves, and they, I think, made a reasonable proposal at the time.

We have not gone back and looked at the markets that West Air had applied for. The reason that we did, in fact, get interested in

Modesto is that the Modesto people came to us. Mr. Smith and members of the chamber of commerce came to Chico, sat down and visited with us, and explained to us how they thought Modesto could fit into our system.

Mr. Talmud, the airport manager of Merced, has called me and has requested that I come down to Merced and talk to him about their needs. I have been unable at this time to make it to Merced.

Mr. COELHO. You would welcome a group from Merced to come down to your corporate headquarters, though, would you, to discuss it——

Mr. DAVIS. Surely.

Mr. COELHO [continuing]. If they might be interested?

Mr. DAVIS. We've been successful in going into markets that have had a loss of service or down fares from jet to propeller, and I think it is working out quite well for Pacific Express.

Now, we talk about United's role in the midseventies in the valley. The key to United is they served every city in the valley.

Mr. COELHO. That's right.

Mr. DAVIS. And when you thought of the valley, if you were in Pittsburgh, Pa., or Atlanta, Ga., you thought of United; and that's what we're trying to do, not only by serving the central valley but the north valley with Redding, Sacramento, and Chico. We want people to think of the valley and think of Pacific Express.

Mr. COELHO. I applaud you. I'm all for it.

Let me repeat about the Merced situation.

You at this point have not studied the ridership or the possibilities in Merced, but you are willing to consider proposals form Merced and getting you involved?

Mr. DAVIS. Yes; we would be very glad to look at any proposal that Merced has and any traffic and population studies that they've done.

Mr. COELHO. And you also would need and would expect the CAB to be involved in that?

Mr. DAVIS. Well, if the city of Merced comes and makes a reasonable analysis presentation to us that looks like Pacific Express should be in there flying either with or without subsidy, then we would go to the CAB and tell them what our interests would be.

Mr. COELHO. And Pacific Express, that would be jet service?

Mr. DAVIS. Yes; that is all we have, are jet aircraft.

Mr. COELHO. Thank you, Mr. Davis. I appreciate your comments very much.

And I would just make one observation, that you were talking about the lack of space at Los Angeles, San Francisco, and other airports for your own facilities. I would say, also, that part of that problem is that if you are using somebody else's personnel and if you don't have a counter that looks like it is permanently yours, et cetera, it also has a lot to do about the credibility of the airline itself, and that the more permanent you look in these facilities, the better it is for your own individual credibility. So, the Uniteds of this world who try to prevent you from getting that type of counter space, et cetera, make a good decision to try to prevent you from ever getting it, because it, in effect, ripples and does the very thing that they want.

I have been in fights with United on this issue for some time with regards to both Modesto and Fresno, on counter space. I think it is a major issue. I think it fits into the whole question of the Federal Government trying to provide essential air service and then for United, who uses facilities that the Government subsidizes, airports and runways that are subsidized by the Federal Government, to be noncooperative in our efforts. There is no reason whatsoever that we shouldn't be able to insist on United providing service, providing access, to your type of facility. I feel that very strongly. And I think it is something that we need to continue to look into and fight and make an issue out of it, because I think it becomes the essential thing for your future credibility as an airline, and for us to be able to develop that with travel agents, develop that with the public and everything.

I might just suggest that you get a United facility, because that's the type of route that would be awfully convenient for me. Thank you very much.

Mr. MINETA. Mr. Davis, thank you very much for your fine testimony, and good luck as you continue on with your efforts to provide air service.

Mr. DAVIS. Thank you.

Mr. MINETA. I am pleased now to call Mr. Mark Mispagel, chief of the Division of Aeronautics, the Department of Transportation for the State of California.

Mr. Mispagel, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

TESTIMONY OF MARK F. MISPAGEL, CHIEF, DIVISION OF AERONAUTICS, CALIFORNIA DEPARTMENT OF TRANSPORTATION

My name is Mark Mispagel, Chief, Division of Aeronautics, for the California Department of Transportation. The department appreciates this opportunity to dicuss California's experience with section 419 of the Airline Deregulation Act as administered in California's Central Valley. Before I begin the substance of my remarks, I would like to bring to the attention of the subcommittee members, the interest and assistance of Congressmen Coehlo and Shumway, State Senators, Garamendi, McCorquodale, and Vuich; the late Califorina Assemblyman John Thurman, and Assemblymen Condit and Johnston in the administration of the essential air service (EAS) program in their districts in the Central Valley.

At the outset of my presentation, I believe it would be helpful to outline why the State is interested in this vital activity. Our role in the section 419 essential air service program stems from our legislative responsibility to assist in the development of the State's air transportation system which is an integral and very important part of the State's total transportation network. In addition, I should point out that Congress has made the States active participants in the section 419 program. In fulfilling this role, the department has met with community representatives, air carriers, the Civil Aeronautics Board (CAB), and other parties, as well as provided formal comment regarding EAS determinations and selection of carriers to provide long-term essential air service.

Seven communities in California's Central Valley are entitled to essential air service under section 419: Redding and Chico in the north (Sacramento Valley) and Stockton, Modesto, Merced, Visalia, and Bakersfield in the south (San Joaquin Valley). Representatives of these eligible communities will provide you with specifics as to the impacts of the essential air service program as it has affected their localities.

From a broader perspective, however, the program is of significance to the Central Valley region and the entire State, as well as to the individual communities. The essential air service program has immediate and direct impact not only on the State's air transportation system but on the total statewide transportation system for which the department is responsible as well as impacting the economic development of the regions served. This, then, is the reason for our interest and involvement in the program.

The California department of transportation has supported the goals of airline deregulation from the beginning. At the same time, however, we have been concerned about the potential loss of air service to those communities which are impacted by deregulation. While the objective of deregulation was competition, it was clearly not the intent of Congress for small communities to suffer from an immediate loss in service. Congress, therefore, provided for a ten-year transition period during which subsidized air service would be provided, if necessary. The object was to ensure access to the Nation's air transportation system during this period of time. We endorsed Congress' assurances of an orderly ten-year transition from a history of economic regulation to a free market environment. Unfortunately, the actual administration of the EAS program in California has been less than orderly. The air service situation we find in the central valley is a sad commentary for a state air service system which was once looked upon as a model of efficiency and reliability—the kind of system which the rest of the Nation might have expected in a deregulated environment.

Since under the Regulation Act, States were preempted from any form of economic regulation, the State's responsibility has been limited to representing communities before the Federal Government, and planning and promoting the development of a stable and efficient air transportation system in California. The Civil Aeronautics Board (CAB) was assigned responsibility to administer the essential air service program with the active assistance of the States and the communities involved.

From the beginning, the CAB's often unilateral approach to its responsibilities has, in our opinion, been a major part of the air service problems experienced in the Central Valley. For example, Congress set minimum levels of air service to be guaranteed in essential air service determinations. The CAB, however, despite a great deal of evidence from communities and States, often adopted those minimums as maximums; this has resulted in selection of replacement air carriers which were unable to carry the former high levels of passenger traffic.

In addition to its policy of guaranteeing only minimal levels of service, the board, has in some cases applied the lower or lowest bid approach in selecting carriers to provide essential air service. This action has been taken contrary to the recommendations of the State and local communities.

For example, in June of 1982 the CAB issued an order selecting carriers to provide essential air service at Stockton and Modesto (Northbound and Southbound respectively), this action was taken against the wishes of the communities. The CAB's reason for the carriers' selection was primarily the lower economic cost, as compared to the cost of carriers preferred by the communities. In the selection process, the board had also found the carriers chosen to be "fit, willing, and able" to provide the essential air service. As it turned out, the result has been a succession of carriers that are incapable of providing reliable and efficient access to the nation's air transportation system. More importantly, this approach has resulted in the erosion of once-flourishing air transportation markets.

To give you a feeling for the magnitude of the problem in 1978 the annual air passenger traffic at Bakersfield was 295,768 enplanements. For the year ending 1982, the figure was 97,743, a decrease of 67 percent between 1978 and 1982.

A similar story is told in Modesto. In 1978, Modesto's annual air passenger traffic was 89,518. By the end of 1982, that figure had decreased by 53 percent to 42,328.

The minimum approach may have been "penny-wise" but in the long run it has proved to be "pound foolish". Since day one of the section 419 program, the communities, with the support of the State, have been trying to persuade the CAB that a long established system of reliable service provided by the larger air carriers using state-of-the-art equipment could not simply be replaced 24 hours later by fledging commuter carriers using smaller equipment.

Rather than simply providing replacement service, the essential air service program, at least in California, has to do more, much more. The essential air service program must go beyond guaranteeing minimal levels of service and foster the development of market potential in each of the communities. The program must be one that not only ensures certain numerical levels of service but also ensures that the system itself is capable of developing and assuming greater responsibility. At the very least, the EAS program should be administered so as to (1) ensure existing traffic levels will be accommodated by replacement carriers, and (2) increase market demand.

Because the basic CAB policy did not take into account the need to develop a commuter air carrier system, or to continually monitor the fitness of the selected carriers, and because the lowest bidder philosophy prevailed, California's Central Valley, for the first years of the program, received service from carriers which often did not have either the means or the desire to effectively market its services or to perform reliably. The number of subsidized seats flown do not make or guarantee reliable air service. Reliable and effective air service requires more than just seats serving a hub: It requires a strong marketing effort and emphasis on service.

In summary, the congressional intent of guaranteeing air service for a ten-year transition period to communities which otherwise would probably have lost air service—has been accomplished. However, if recent trends continue as they have, it is fairly predictable that many of the guaranteed markets will lose air service once the ten-year transition period has elapsed in 1988. In total, it would be a lot of time, effort, and subsidy money spent without long-term benefit.

Now is the time to redirect our thinking to emphasize market development rather than just the provision of minimum levels of air service. The responsibility rests on all parties: with the CAB to prioritize service over subsidy levels; with the communities to respond well in supporting and assisting in the development of their air service; with the state to assist the communities and the carriers in planning and promoting the development of a stable and efficient air transportation system; and with the carriers to *market* and provide reliable, stable, and efficient air service.

We believe this means reevaluating the EAS determination case by case, based on traffic generating potential—not just the recent historic traffic levels. It means even closer scrutiny of the air carriers applying to serve a point (and sometimes paying more for a higher quality service); it means giving greater weight to the views of the community and the state; it means educating the public to encourage acceptance of the smaller equipment and new generation equipment used. It means greater involvement for *everyone*—in a giant effort to not only build current markets but to develop a system that will stand on its own when the EAS program ends.

Everyone involved—the CAB, the communities, the state and the carriers—share the responsibility for seeing that deregulation and its goals are implemented in an orderly fashion that avoids service disruption. The Administrators of the EAS program must recognize the importance of all parties working together cooperatively. We are willing to do so to ensure smaller communities are given every opportunity available to develop viable, self-sustaining air service markets.

Thank you again for this opportunity to address the subcommittee on this important issue

Mr. MINETA. Please proceed

TESTIMONY OF MARK F. MISPAGEL, CHIEF, DIVISION OF AERONAUTICS, CALIFORNIA DEPARTMENT OF TRANSPORTATION

Mr. MISPAGEL. Mr. Chairman, it is a pleasure to be here with you this afternoon to discuss some of the State's observations on the section 419 program. I particularly want to thank you and Congressman Coelho for having the hearings here in California. It's nice to have you come West and get the view from the trenches.

First of all, I would like to let you know that my full statement has been submitted, and I would like for that to be considered part of the record.

Mr. MINETA. Your full statement will be made a part of the record.

Mr. MISPAGEL. And, in turn, I will just summarize my remarks and answer any questions you may have.

The State's interest in this question stems from our responsibility to assist in the development of the entire statewide transportation system. The aviation system is obviously a very important and integral part of that system. In addition, Congress has made the State an active player in the section 419 program as an advocate on behalf of the communities.

The communities have done an excellent job of providing you with specific factual information on the impact of deregulation and particularly the section 419 program as it has affected their localities. From a broader perspective I think it is important to note that this program has significance beyond the communities to the entire central Valley region and to the State as a whole.

The essential air service program has immediate and direct impact not only on the State's air transportation system, as I said, but on the entire State's transportation system, and, as well, it impacts the economic development of the communities and the regions that are served. The department has supported the goals of deregulation from the beginning, but at the same time we took seriously the congressional promise of 10 years of orderly transition from a history of a regulated environment to deregulation. Unfortunately, as much of today's testimony has indicated, the actual administration of the program, at least in California, has been somewhat less than orderly.

I don't want to appear to blame the Civil Aeronautics Board for all of our problems, but it's been our observation from the very beginning that the board's often unilateral approach to its essential air service program responsibilities has has been a major part of the air service problems and experience, particularly in the central valley. For example, Congress set minimal levels of air service to be guaranteed in the essential air service determinations. The board, however, despite evidence to the contrary, has often adopted those minimums as maximums. This has resulted in the selection of replacement carriers which were unable to carry the former high levels of passenger traffic.

In addition to its guaranteeing only minimal levels of service, the board has, in some cases, applied a lower or lowest bid approach in selecting carriers to provide essential air service again, contrary to the recommendations of the State and local community. The minimum approach may have been pennywise but, in the long run, it has proven to be pound foolish.

Since day one of the section 419 program, the communities, with the support of the State, have been arguing that a long, established system of reliable air service, in many cases provided by larger aircraft, could not be simply replaced 24 hours later by fledgling commuters using small airplanes. I think the testimony today has been in line with that. Rather than simply providing replacement service, the essential service program, at least in California, has to do more. The program must go beyond guaranteeing minimal numbers of seats. It must aim to develop the commuter system which, we all agree, has been lacking here.

Because the basic board policy did not take into account the needs to develop a commuter airline system or to continually monitor the fitness of selected carriers, and because the lower bidder philosophy often prevailed, California's central valley, for the first years of the program, received service from carriers which often did not have either the means or the desire to effectively market their services or to perform reliably. The number of subsidized seats flown does not make or guarantee reliable air service. Reliable and effective air service requires more than just seats serving a hub. It requires a strong marketing effort and emphasis on service.

Now, while there is still time, we should emphasize market development rather than just the provision of minimal levels of seats. The responsibility, as I think is clear from the testimony you've heard so far, rests on all parties; with the CAB to prioritize service over subsidy levels, with the communities to respond well in supporting and assisting in the development of their air service, with the State to assist the communities and the carriers in planning and promoting the development of a stable and efficient air transportation system, and with the carriers to market and provide reliable, stable, and efficient air service. We believe this means reevaluating the essential service determinations that have been made thus far, case by case, based upon traffic generating potential rather than just recent historic traffic levels. It means even closer scrutiny of carriers applying to serve a point and sometimes a willingness to pay more for higher level and quality of service. It means giving greater weight to the views of the community and it means educating the public to encourage their acceptance of smaller and new generation equipment. It means greater involvement for all concerned in a major effort, not only to build current markets but to develop a system that will stand on its own when this program has gone away.

Again, I have taken the board to task, somewhat. I want to emphasize the cooperation we have received, particularly at the regional level from Mr. Smith, and to indicate that some of the problems they have experienced are the same problems we all have: they to transition from basically a regulatory approach to doing business inaderegulated envoronment, they have had to deal with a State which has had different kinds of problems because we did not have an established commuter air-carrier system. As was clear from Mr. Murphy's testimony, they do share our frustration.

I want to thank you again for this opportunity, and we remain committed to assisting you and the communities in this program.

Mr. **Mineta**. Thank you very much, Mr. Mispagel.

Much of your testimony is to the effect that the CAB should subsidize more and better service. And the one thing I have always observed in public life is that it is often very easy to spend somebody else's money; and I think it is easy for the State to say the Federal Government should spend more money.

Now, if you had to go to the State legislature and deal with the State legislators from, let's say, Los Angeles, San Diego, and other places, and had to convince them that $316,000 per year is not enough and that their taxpayers need to pay more than that for Modesto and Stockton, what kind of success do you think you would have if you had to undertake that kind of a task?

Mr. **Mispagel**. I think initially, like I said, we don't favor subsidy for its own sake, and we would like to get weaned off of subsidy as soon as possible, to see that the system will sustain itself. And I think the initial reaction would be predictable, in answer to your question.

However, I think, as I said earlier, the system that serves this valley also serves the major hubs in the larger cities. And the air transportation system is crucial to economic development in this State, because it provides the kind of mobility that is absolutely essential to do business anywhere in this State. Unless we had a credible system—and the testimony I've heard today indicates that may be beyond the problems with individual communities. We are seeing a system, an air transportation system, that is losing credibility, and I think this can spread beyond just California if we let it. We've got to make people in the urban areas realize the importance of providing the kind of access that only the airplane can provide to the small- and medium-size communities.

Mr. **Mineta**. Now, you have said that the State should have a larger say and role in the EAS program. What would be the larger say or role that you envision the State taking in the EAS program, and if you are going to have a larger say, would you be also willing to provide a specified percentage of the subsidy cost as well?

Mr. **Mispagel**. I don't believe, Mr. Mineta, we asked for a larger stake. We did pledge to remain active participants in the program. I think all along, since day one, we have been arguing, as have the communities—and this is borne out in the lengthy record of the proceedings down at Bakersfield—that we, perhaps, know our situation out here, transportationwise, at least better than the people in Washington, and that we think that our views and the views of the community should at least be given some credibility as these determinations are made.

For a long time, the argument in the communities, at least, was that we needed larger aircraft to replace the larger aircraft that the communities were losing. And these arguments fell on deaf ears. Because the board staff was familiar with communities which had highly developed, commuter systems on the east coast, they couldn't fully appreciate the problem we had here in California.

Now, it may not be proper or appropriate that we were spoiled with larger jet aircraft; but the fact is, we had that kind of service and to show up, as I said, 24 hours later with a small, 15-passenger airplane and expect people to get on, or, more importantly, expect that to satisfy this long developed demand, is overly optimistic. One of my staff people compares that to filling a teacup with a firehose. You've got all of this demand, but if you bring in the smaller aircraft, you will kill off the demand.

To get back, though, to your question, we simply want some recognition that we do understand our system and its needs out here. We're not asking to take over the program.

Mr. **Mineta**. Now, it has been suggested by the General Accounting Office that subsidies to communities that are unlikely to be able to support air service after 1988 be discontinued, and that those subsidies be devoted to other points. GAO also suggests that States propose where such shifts in subsidy take place. Do you have any comments on that proposal?

Mr. **Mispagel**. As I suggested earlier, we would like to see the subsidy end as soon as possible and see a system that can sustain itself. I do think, at some point, difficult decisions have to be made in terms of who does continue to receive subsidies. And is it worth paying a premium to have air service provided in a community that can't support itself? We don't have an answer to that specific question at this time, but we think it is one of the most important issues facing Congress and the board as we head toward the end of this program.

Mr. **Mineta**. Thank you very much, Mr. Mispagel, not only for your testimony here today but for your work. As I look at departments of aviation, or divisions of aeronautics, or whatever it might be called, across the country, the work you do, that you do personally, as well as the work of the department as a whole, is an outstanding one. I just want to thank you for that.

Mr. **Mispagel**. Thank you.

Mr. **Mineta**. I'm pleased to call on the Honorable Joseph L. Alva, the chairman of the board of supervisors for San Joaquin County, as well as the next panel, including Mr. Jeff Condrey, airport manager of Stockton Metropolitan Airport.

And, Mr. Alva, please go ahead and——

Mr. **Condrey**. Chairman Mineta, my name is Jeff Condrey. I'm the airport manager. Our chairman of the board of supervisors was not able to make it at the last minute. Unfortunately, they had prepublicized public hearings for the budget that are starting today, and the entire board is in session at this moment.

Mr. **Mineta**. I can well appreciate that issue.

Mr. **Condrey**. They have asked that I present the testimony on behalf of San Joaquin County.

Mr. **Mineta**. Very well.

The full text of your jointly prepared statement will appear in the record at this point.

[Statement referred to follows:]

TESTIMONY PRESENTED BY SAN JOAQUIN COUNTY
Before
THE SUBCOMMITTE ON AVIATION OF THE HOUSE PUBLIC WORKS COMMITTEE
Held On
AUGUST 16, 1983
In
MODESTO, CALIFORNIA
REGARDING AN EVALUATION OF THE ESSENTIAL AIR SERVICE PROGRAM
ADMINISTERED BY THE CIVIL AERONAUTICS BOARD

Communications with respect to this testimony should be addressed to:

Jose L. Alva, Chairman
San Joaquin County
Board of Supervisors
222 E. Weber Avenue
Stockton, California 95202

Jeff Condrey, Airport Manager
Stockton Metropolitan Airport
5000 S. Airport Way, Rm. 202
Stockton, California 95206

August 9, 1983

Chairman Mineta, Members of Congress, on behalf of San Joaquin County, I would like to express our appreciation for the opportunity to present testimony to your committee regarding the Essential Air Service Program in general and more specifically its impact on the greater Stockton, California area. San Joaquin County owns and operates the Stockton Metropolitan Airport (Metroport) which provides air service access to a large geographic region encompassing all or parts of San Joaquin, Stanislaus, Calaveras, Tuolumne and Contra Costa Counties.

This testimony is based on the following assumptions:

1. The domestic airline industry will not be regulated by Congress in any form.
2. The Essential Air Service Program will not be extended by Congress beyond 1988.
3. It is probable that Congress will accept recommendations from the General Accounting Office (GAO) and the Civil Aeronautics Board to amend the Airline Deregulation Act of 1978 enabling more flexibility in the Essential Air Service Program (EAS). As a result, communities such as Stockton and Modesto, would be eliminated from the program due to our close proximity to larger hub airports (i.e., Sacramento, San Francisco, Oakland and San Jose).

Mr. Chairman, if you will permit me, I will attempt to anticipate three of your questions and provide answers by way of introduction.

1. Why is San Joaquin County discussing Modesto in its testimony?

   Answer: Frontier Airlines estimates that approximately 40 to 45 percent of their traffic originates in the Modesto area or points further south. Pacific Express estimated, prior to beginning service in April of this year, that 35 percent of their traffic at Stockton originated from the Modesto area or points further south. Now that Pacific Express has begun service in Modesto, passenger boardings at the Stockton station for May and June of this year compared to May and June of last year, have decreased 39 percent. The initiation of service in Modesto, is not the only factor in this drop but is it probably the major factor. Hopefully, you will agree that if we focussed our attention only on Stockton, San Joaquin County would be ignoring almost half of the potential market area. In our opinion, it is this portion of the market which makes the difference between viable air service as opposed to continued dependency upon subsidies.

2. Why does the Federal Government continue to subsidize air service that is utilized by so few people?

   Answer: This is a question which we often hear in the local community. Our major travel agents in the Stockton area, estimate that only 20 percent of the air travel market utilizes the Metroport and 80 percent utilize neighboring hub airports. Of course, the 20 percent that use the Metroport represents a very small fraction of the general population. In times of record federal budget deficits, we have difficulty responding to this question. In fact, we cannot fault the logic included in the General Accounting Office report that certain communities within easy driving distance of hub airports, be eliminated from continued subsidy.

3. Why continue to discuss the Regional Airport issue between Stockton and Modesto now that Pacific Express has entered the Modesto market?

   Answer: San Joaquin County is skeptical that Pacific Express will be able to provide subsidy-free service to both Stockton and Modesto. Until Pacific Express, systemwide, is able to show steady net profits and if and when both communities are served subsidy-free, only then can the two communities relax. Until that time, we continue to believe that the regional airport is the likely solution to what has been continual turmoil since airline deregulation.

Mr. Chairman, it is not our intention to dwell on the problems of the past. Our testimony is orientated towards solving existing problems and working towards a long-term foundation for adequate air service in the Stockton/Modesto area. By way of background, we have included in the Appendix, in chronological order, a series of CAB Orders and communications from San Joaquin County. I am sure if the Committee is able to study the Appendix material you will see the foundation of our current policy recommendations.

The following is a brief summary, item by item, of the various Appendix documents:

- Civil Aeronautics Board Order 80-9-70 adopted September 12, 1980, allowing Pacific Southwest Airlines to terminate all service at Stockton, California (Docket 38489 NR-260); granted Gem Investors, Inc., d/b/a Golden Gate Airlines, permission to terminate transitional EAS requirements and dismissed as moot notice to reduce service in the Modesto/Stockton to San Francisco market (Dockets 38650 and 38651), and required United Airlines to maintain for 30 days its capability to resume Modesto-SFO service (Dockets 36228 and 36230).
- Community Comments on Essential Service Proposals supporting Pacific Express (Docket 40147).
- Letter dated January 19, 1982, from Richard Yoshikawa, Chairman, San Joaquin County Board of Supervisors, to CAB with information supplemental to previous comments filed regarding EAS at Stockton, California (Docket 40147).
- CAB Order 82-5-130 adopted May 24, 1982, selecting Aspen Airways to provide Stockton/Modesto service to Los Angeles and Air Chaparral to provide service to San Francisco (Docket 40147).
- CAB Order 82-3-47 adopted August 9, 1982, for Stockton and Modesto, California, to allow Aspen Airways, Inc., to discontinue its Stockton-Los Angeles service provided Westair Jet, Inc., d/b/a Pacific Express, is providing two daily round trips to the market (Docket 40147)

- Pacific Express, Inc.'s ninety day notice dated February 18, 1983, of suspension of service at Stockton, California (Docket 41296).
- Jose L. Alva, Chairman, San Joaquin County Board of Supervisor's response dated March 8, 1983, to Pacific Express Inc's notice of intent to suspend service. (Docket 41296).
- Jose L. Alva, Chairman, San Joaquin County Board of Supervisor's letter dated April 26, 1983, with community comments regarding EAS on the Stockton-Los Angeles market.
- Stockton Record, dated April 3, 1983, guest editorial by Douglass W. Wilhoit, San Joaquin County Supervisor, in support of one strong regional airport.
- CAB Order 83-5-44 adopted May 5, 1983, selecting Pacific Express, Inc. as EAS carrier to provide Stockton-Modesto-Los Angeles service.
- Jose L. Alva, Chairman, San Joaquin County Board of Supervisor's letter dated May 25, 1983 to CAB and Chairman Dan McKinnon's response dated June 15, 1983 regarding selection of Pacific Express as the EAS carrier for Stockton and Modesto.

RECOMMENDATIONS FOR IMPROVING THE ESSENTIAL AIR SERVICE PROGRAM:

1. The House Subcommittee on Aviation should immediately request that the Civil Aeronautics Board reevaluate the intent of Congress, as expressed in the Airline Deregulation Act, relative to continued air service at certain EAS eligible points which have chronic problems, such as Stockton and Modesto.

   Explanation: The EAS program has been successful at most points. However, there are a few points that have been failures, such as Stockton and Modesto. The major factor in such failures, is a rigid set of guidelines adopted by the CAB to implement the EAS program. San Joaquin County contends that Congress granted more flexibility in the Act to solve such chronic problems than the CAB is willing to exercise. Communities such as Stockton and Modesto have proven to be exceptions and therefore extraordinary remedial action is justified.

2. The CAB should consider the ability of air carriers to compete with the automobile when selecting hubs to be served from an EAS point. A major factor in a carrier selection process

should be proof that a given carrier will be able to effectively compete with the automobile.

Explanation: San Joaquin County contends that commuter service to San Francisco (80) miles) will not likely become subsidy-free. The one-way fare is currently $45.00 and does not begin to compete with the cost of driving. We believe the CAB's limited resources could be more effective when applied in EAS markets such as Los Angeles (315 miles). Such markets are better suited for travel by air and therefore more likely to be served without subsidy.

3. The EAS program should be amended to include effective minimum standards for replacement carriers. Such standards should be most demanding for the largest EAS points, such as Stockton and Modesto, and less restrictive for the smaller communities.

Explanation: Under the existing EAS guidelines carriers such as United and PSA were replaced in Stockton by propeller-driven commuter aircraft operated by inexperienced airline entrepreneurs. Such commuters, although found "fit, willing and able" by the CAB, would eventually fail financially and in the process destroy a substantial market. Had the CAB been able to replace PSA and United with a carrier such as Pacific Express, our market would have continued to grow. The CAB was actually a hindrance to local efforts to restore jet service because the existing EAS program is heavily orientated toward small commuter airlines. Replacement carriers should be reasonably comparable to the service being replaced.

4. The EAS program should be amended to make it attractive to established National carriers, such as Frontier, Air Cal or Republic West at the largest EAS eligible points.

Explanation: San Joaquin County has detected a strong reluctance by National carriers to be obligated to provide service under the existing EAS program. We recognize that Congress intended that the 406 program be phased out, in favor of the 419 program. However, medium size communities, such as Stockton and Modesto, should fall somewhere in between. The CAB, and its successor agency, should make a concerted effort to identify the concerns of established National carriers regarding the existing 419 program. Special efforts should then be made to remove barriers which discourage service to the largest EAS points.

5. Replacement carrier proposals should be evaluated from a cost standpoint based upon subsidy per revenue passenger rather than gross dollar amounts.

   Explanation: The CAB tends to measure the success of the EAS program based upon increased frequency of flights to a community. However, a more accurate measure of success is the number of passengers using the service. In our case, due to the ready availability of substitute air service, commuter airlines have been rejected. On the other hand, Pacific Express and Frontier are successfully developing the market. If more weight is given to the lowest subsidy per revenue passenger, successful replacement service should result. To focus on gross dollar subsidies to commuters is a waste of funds with no progress toward subsidy-free service.

6. The EAS program should be converted from a minimum subsistence program to a development program for those markets reasonably expected to maintain subsidy-free service when the program expires in 1988.

   Explanation: Under existing guidelines, the CAB contends that any eligible point requiring more than 80 seats per day (62 with large aircraft) will be served subsidy-free based upon motivations of free enterprise. This is clearly not the case, based upon our experience. Stockton, in all markets, currently offers 474 seats per day, and both EAS carriers receive subsidy. An arbitrary maximum limit of 80 seats per day does not begin to address the needs of this market. San Joaquin County concurs with the recommendation by the General Accounting Office that increased short-term subsidies be made available to points which could reasonably be developed to a self-sufficient point.

7. The Airline Deregulation Act of 1978 should be amended to specifically authorize the CAB, or its successor agency, to consolidate EAS determinations for various neighboring communities at the most central airport.

Explanation: San Joaquin County contends that it is unlikely that both Stockton and Modesto can support subsidy-free service at their local airports. Unless Congress acts sooner, as recommended by the General Accounting Office, we expect EAS carriers at both airports to terminate service in 1988 when the program expires. Such an eventuality could be avoided, if the CAB were authorized to pool the resources of Stockton and Modesto for combined EAS service at one regional airport appropriately renamed. In addition, short-term development subsidies could repair the damages caused by previous CAB actions. Finally, a regional airport would then be able to meet the long-term air service needs of the greater Stockton/Modesto area by being able to compete in a deregulated environment after subsidy programs expire.

Order 80-9-70

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

REC'D SEP 18 1980

Adopted by the Civil Aeronautics Board
at its office in Washington, D. C.
on the 12th day of September, 1980

SERVED

Notices of UNITED AIR LINES, INC. of intention to terminate all service at Modesto and Stockton, California.	Dockets 36228 and 36230
Notices of PACIFIC SOUTHWEST AIRLINES to suspend nonstop and single-plane service in selected markets and to terminate all service at Stockton, California.	Docket 38489 NR-260
Application of GEM INVESTORS, INC. d/b/a GOLDEN GATE AIRLINES for emergency termination or modification of transitional service requirements or for an emergency exemption from such requirements.	Docket 38650
Notice of GEM INVESTORS, INC. d/b/a GOLDEN GATE AIRLINES of intention to reduce service to Modesto and Stockton, California, below the transitional essential service level.	Docket 38651

ORDER

In response to notices filed by United Air Lines to terminate all service at Modesto (Docket 36228) and Stockton (Docket 36230), California, we issued Order 79-1 [illegible] 2 establishing a transition program

On July 18, Pacific Southwest Airlines (PSA) filed notices (NR-260 and Docket 38489) of its intention to suspend all nonstop service in the Oakland-Reno and Oakland-Ontario markets, effective September 17, and to suspend all of its service at Stockton, including nonstop Los Angeles and single-plane Stockton-San Diego service, effective October 13, 1980.

On August 13, the County of San Joaquin objected to PSA's notice to terminate single-plane San Diego-Stockton service, nonstop Los-Angeles-Stockton service and all service at Stockton. 2/ In its objection, the County asks that the Board (1) prohibit PSA from terminating its Stockton services until the EAS appeal has been decided and we have established an appropriate transition level of essential air service (200 seats in each direction) for the Stockton-Los Angeles market and found a substitute carrier to provide such service with at least 50-passenger aircaraft and (2) require PSA to remain on stand by for at least six months following inauguration of the replacement service.

Both Golden Gate and PSA filed answers to the County's objection. In its answer Golden Gate advised the Board of its plans to inaugurate and, subsequently, increase service in the Los Angeles-Stockton market if PSA terminates service at Stockton. On the other hand, PSA argues that since Golden Gate will provide Stockton with the 200 seats that the County has requested as a transitional minimum, the issues of whether Los Angeles should be a designated hub for Stockton and the minimum number of seats that should be guaranteed, if it should be designated a hub, need not be reached before PSA can be allowed to terminate service at Stockton. PSA also states that it has no objection to being required to remain as a stand-by carrier as requested by the County, but it does ask that the stand-by period be a maximum of three, not six, months as suggested by the community.

As we stated above, the original order establishing a transition program at Stockton and Modesto contemplated holding United on stand by for 90 days. However, Golden Gate's performance, particularly on-time performance, declined towards the end of the first 90 days. As a result, we held United on stand by beyond the expiration of the 90-day period. In our last order (Order 80-8-120) dealing with United's stand-by obligations at Modesto and Stockton, we relieved that carrier of its back-up responsibilities at Stockton, but renewed them at Modesto for another 30 days, through September 21. We also redefined the transitional period to expire on November 15, or 60 days after we had acted on the appeals filed by the communities to their

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2/ The Cities of Oakdale, Ripon, Tracy, Turlock, and Stockton and the Counties of Stanislaus and Calaveras filed answers in support of the objection filed by the County of San Joaquin.

Transitional Service Requirements at Stockton and Modesto

In the order on appeal (Order 80-9- 69), issued simultaneously, we have adopted the appeal panel's recommendation that we modify Modesto's and Stockton's EAS determinations by designating Los Angeles as a second hub in addition to San Francisco. As a result, essential service for both points is defined as a minimum of two round trips to each hub and our maximum daily seat guarantee of 80 inbound and 80 outbound seats at each point. Service to San Francisco must to nonstop, but one intermediate stop is allowed to Los Angeles.

In light of this, we have reconsidered our recent action in Order 80-8-120 extending the transitional service period for both Modesto and Stockton and have decided to end that period effective September 15. Now that we have designated Los Angeles in addition to San Francisco as essential for Modesto and Stockton, there is no longer a need for a transitional service program in the San Francisco market. This is amply demonstrated by Golden Gate's low load factors at Modesto and Stockton. From March through July, Golden Gate offered about 6,500 weekly seats to Stockton and Modesto and about 5,800 weekly seats since August 1, instead of the transitional service level of 4,800 weekly seats. The results have been disappointing, with load factors at Stockton never exceeding 25 percent and load factors at Modesto exceeding 30 percent for only a brief two-week period in the Los Angeles market when load factors were 33 percent. These figures alone indicate that the transitional service level is too high for current demand and suggest that Golden Gate should be permitted to reschedule its services to correspond to that demand. In any event, we note that Golden Gate's September 15 schedules provide a well rounded pattern of service to both Modesto and Stockton, with 340 inbound and outbound seats daily at the former and over 450 inbound and outbound seats daily at the latter. We feel that those schedules and our decision on the communities' appeals obviate extension of the transition period. Consequently, we will grant Golden Gate's request, in Docket 38650, for the termination of the transitional service requirements and will dismiss its 90-day notice, in Docket 38651. However, since these were two of the first transitional service cases, we will continue to monitor air service in the Modesto-San Francisco/Los Angeles and Stockton-San Francisco markets. We will, therefore, extend the weekly reporting requirements described in Order 79-12-22 until further notice.

PSA's Notices and San Joaquin County's Request for a Transition

We have on numerous occasions expressed our commitment to set transitional service levels above a community's standard EAS determination and to prohibit a carrier's proposed suspension or reduction, when it is clear that a substantial number of passengers will be unaccommodated were we to allow the service reduction. That is not the case here.

We have also examined the effects of PSA's proposed suspensions in the remaining markets, Oakland-Reno and Oakland-Ontario, and have determined that no community would reasonably appear to be deprived of its essential air service. PSA's suspensions will not eliminate service in the primary market for any of these communities, nor will passengers be unaccommodated. Finally, no objections were filed to PSA's notice for these remaining markets.

Before PSA reduces or suspends service we will require that it give the communities involved advance notice of its actual reduction or suspension. Additionally, we fully expect it to contact all passengers holding reservations on its flights to inform them of the cancellation and find alternate transportation for them. Should it fail to do so we will consider its actions in light of the unfair or deceptive practices provisions of section 411 of the Act.

Reliability

Although Golden Gate is currently certificated in the Stockton-San Francisco market, it operates as a commuter air carrier in the Stockton-Los Angeles market. Because of this, and the fact that it will be the only carrier providing service in the Stockton-Los Angeles market, we must determine whether it is fit to provide essential air service. In Order 80-3-38, March 7, 1980, we found Golden Gate fit and its aircraft safe to provide essential service at Modesto and in the Stockton-San Francisco market. In view of Golden Gate's record of service at Stockton since it replaced United in the latter market, we incorporate our previous findings here and determine that it is fit and its aircraft are safe to provide essential service in the Stockton-Los Angeles market.

Stand-by Obligations

The County of San Joaquin has asked that we require PSA to remain on stand by in the Los Angeles-Stockton market for six months following its suspension. PSA does not object to the imposition of a stand-by requirement, but asks that any such condition be imposed initially for no more than three months. As recognized earlier, Golden Gate has had some problems with on-time performance at both Stockton and Modesto, which resulted in our holding United in a back-up capacity longer than originally anticipated. Since Golden Gate has been in the Los Angeles market for less than a month, we will require PSA to maintain, for at least the first 30 days, 5/ the capability to provide service in the Los Angeles-Stockton market if Golden Gate is unable to provide its proposed level of service reliably. 6/

5/ PSA should anticipate that we may retain this requirement for successive 30-day intervals until we are convinced that Golden Gate has demonstrated its operational reliability for the expanded level of service.

6/ We will expect Golden Gate to notify us of possible or actual service disruptions.

after its suspension the capability to provide Stockton-Los Angeles service as prescribed in the text of this order;

4. We find Gem Investors, Inc. d/b/a Golden Gate Airlines fit, willing and able, in accordance with section 419(c)(2) of the Act, to provide essential air transportation in the Stockton-Los Angeles market and that its aircraft are safe;

5. We order Golden Gate Airlines to submit weekly reports to the Essential Air Services Division and to Modesto and Stockton on its services in these communities' Los Angeles and San Francisco markets including the information described in footnote 8 and to notify us of possible or actual service disruptions in the Stockton-Los Angeles market as stipulated in footnote 6 of this order;

6. We delegate to the Associate Director, Subsidy Policy and Programs, Bureau of Domestic Aviation, and the Chief, Essential Air Services Division, Bureau of Domestic Aviation, (either of them) the authority to order Pacific Southwest Airlines to resume service in the Stockton-Los Angeles market on weekends; 9/

7. We grant the application of Gem Investors, Inc. d/b/a Golden Gate Airlines, in Docket 38650, for the termination of the transitional essential air service requirements at Modesto and in the Stockton-San Francisco market, on September 15, 1980;

8. We revoke our action in Order 80-8-120 extending the transitional essential air service level for Modesto and Stockton to November 15, 1980, or 60 days after the Board has acted on the appeals filed the communities to their essential air service determinations in Dockets EAS-353 and EAS-361, whichever occurs first;

9. We require United Air Lines to maintain for the 30-day period ending October 21, 1980, its capability to resume Modesto-San Francisco service as perscribed in Orders 79-12-22 and 80-3-38;

10. We dismiss as moot the 90-day notice filed by Golden Gate Airlines, in Docket 38651;

11. Except to the extent granted above, we deny the petition of the County of San Joaquin, in Docket 38489 and NR-260; and

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9/ This period begins each week at 5:00 p.m. on Friday and ends at 8:30 a.m. the following Monday.

APPENDIX 1

Golden Gate Airlines
September 15th Schedules
Stockton & Modesto To/From Los Angeles & San Francisco

Depart From		Freq.	Stops	Arrive		Seats	
SCK	MOD			SFO	LAX	SCK	MOD
0600		D	0	0635		19	
0605		D	0	0640		19	
0610		X7	MOD		0805	25	
	0635	D	0	0710			46
	0645	X7	0	.	0805		25
0820		D	0		0950	50	
	0905	X67	SCK		1115		25
0945		X67	0		1115	25	
	1010	X7	SCK	1120			25
1045		X7	0	1120		25	
1140		D	MOD	1300		8	
1300		D		1335		19	
.	1220	D	0	1300			10
1520		D	MOD		1730	25	
	1600	D	0		1730		25
	1605	D	0	1645			10
	1950	D	SCK	2030			25
2015		D	0	2050		25	
Total Daily Outbound Seats						240	191

Depart From		Freq.	Stops	Arrive		Seats	
SFO	LAX			SCK	MOD	SCK	MOD
	0720	X67	0		0845		25
	0720	X67	MOD	0925		25	
0730		D	0	0800		50	
	0830	X7	0		0950		25
	0830	X7	MOD	1010		25	
0935		D	0		1015		10
1100		D	0	1130		9	
1100		D	SCK		1200		8
1430		D	0	1500		25	
1435		D	SCK		1540		25
1710		D	0		1750		10
	1800	D	0		1930		25
	1800.	D	MOD	2005		25	
1830		D	0	1900		19	
1915		X6	0		2050		19
	2030	D	MRY	2245		25	
2145		D	0	2215		17	
2145		D	SCK		2245		19
2225		D	0	2255		19	
Total Daily Inbound Seats						239	166

BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D.C.

Community Comments on Essential Service Proposals of: AIR CHAPARRAL, INC. ASPEN AIRWAYS, INC. WEST AIR HOLDING, INC., dba PACIFIC EXPRESS/WEST AIR Under Section 419 of the Federal Aviation Act of 1958, as Amended	Docket No. 40147

PROPOSALS TO PROVIDE ESSENTIAL AIR SERVICE AT STOCKTON, CALIFORNIA

Communications with respect to this document should be addressed to:

Douglass W. Wilhoit
Chairman, San Joaquin County
Board of Supervisors
222 E. Weber Avenue
Stockton, CA 95202

Jeff Condrey
Airport Manager
Department of Aviation
5000 Airport Way, Room 202
Stockton, CA 95206

December 1, 1981

I. INTRODUCTION

The following comments are on behalf of all citizens of San Joaquin County and other users of the Stockton Metropolitan Airport (SCK). San Joaquin County (County) is the owner and operator of SCK. The following are the basic premises upon which these comments are based:

- We feel strongly that the San Joaquin County Board of Supervisors, local elected officials, know the needs and desires of our citizens with respect to air service better than any state or federal agency.

- We believe that the air service market demonstrated prior to airline deregulation was a viable market. Although the market may not have fit the future plans of the incumbent carriers, had there been a smooth transition to a truly "fit, willing and able" carrier, the market would still be viable today. However, through direct actions by the Civil Aeronautics Board (CAB), by placing carriers such as Air Pacific and Golden Gate Airlines in this market, the credibility of existing and future air service at SCK has been severely injured. Consequently, we feel the CAB should take responsible actions to repair the damage.

- There is a population base of 600,000 people within 45 minutes ground time of SCK; we know that reliable, professional air service will be supported. Therefore, we think it is "essential" to have jet service in the Stockton-Los Angeles market.

- The Essential Air Service (EAS) program, as adopted by the CAB, does not meet the needs of this community because current boarding levels reflect poor service. Consequently, we do not feel that the guidelines adopted for EAS should be strictly applied when evaluating the proposals received for service to this community.

II. BACKGROUND

During fiscal year (July 1-June 30) 1977-78, SCK was served by United Airlines, Hughes Airwest and PSA. During this period, approximately 272,000 total passengers were handled. By contrast, in the current fiscal year 1981-82, SCK is served by Frontier Airlines and Aspen Airways and we estimate only 80,000 total passengers will be handled -- over a 70 percent decrease in just three years. During the interim period, the community received "air service" from Air Pacific, Golden Gate Airlines, Yosemite Airlines, and for a short time, by Swift Airlines.

During this three year period there was considerable negative publicity regarding air service at SCK for the following reasons:

- o Very frequent schedule changes.
- o Considerably higher fares than were available for air service at neighboring airports.
- o What was perceived by many to be inferior propeller-driven equipment compared to the large jet equipment available at neighboring airports.
- o Commuters generally had a poor corporate appearance and inexperienced personnel.
- o Minimal marketing effort and public relations conducted by carriers.
  In fact, the County spent $30,000 on a marketing program designed to generate traffic at the local airport in order to fill this void.

The result of this type of commuter service has been disastrous and will probably require considerable subsidy in order to recover the market. The ironic thing about this period in our air service history, is that most of the commuter airlines that offered service to SCK were determined to be "fit, willing and able" by the CAB.

SCK is located 65 miles (1 hr. 15 min.) south of Sacramento Metro Airport; 90 miles (2 hrs.) east of SFO; and 75 miles (1 hr. 30 min.) east of OAK. The area is connected by an advanced freeway system; consequently, substitute air service is available at neighboring airports. However, such service is only available at considerable inconvenience to our citizens. When compared to the previous convenience level, when adequate air service was available at the local airport, it is disgraceful to have to subject our citizens to this type of inconvenience.

Within 45 minutes ground time of SCK, there is a population base of over 600,000 people. This area has experienced a very solid, rapid growth trend and the future appears to be bright. It is our opinion, that there are two very distinct air service markets in this region; (1) a relatively large market, if served by a professional carrier competitive in terms of equipment, fares, reliability, marketing, etc. with other services being offered by carriers at neighboring airports; and (2) a very small market for commuter type service with propeller driven aircraft with service levels comparable to what we have experienced in the past. We are aware that there are many communities in the range of 15-50,000 in population that, primarily for community pride, are demanding that jet service be returned and we agree that such demands are unrealistic. However, we do not feel that this community falls into this category. We firmly believe that jet service to southern California, if provided by the right carrier, can and will be profitable. Consequently, while CAB staff has been devoting their energies to locating another commuter type service, which has been totally rejected in the past by this community, we have been working diligently with potential jet operators. We recognize that the EAS program is not an air service development program but rather a "safety net" type of program. However, we believe that this market, because of the availability of substitute air service, even at considerable inconvenience, requires that this be a jet service market in order to be successful again.

III. SUCCESSFUL AIR SERVICE SINCE DE-REGULATION

On May 1, 1980 Frontier Airlines began service to SCK. Originally the route was Stockton-Sacramento-Denver and was later changed to Stockton-Reno-Denver. Frontier is, without question, one of the more professional airlines in the industry and does an excellent job. It is rare to see either a cancelled flight or even a delayed flight for any reason. Frontier's service in all respects has been competitive with service at neighboring airports and consequently the market has responded and is steadily building. In fact, during the first twelve months of service our passengers to Denver exceeded our 1997 forecast (20,900) by over 6,000 passengers. Frontier officials have assured us that they are pleased with the performance of this market, particularly when considering that the service has been impeded by an overwhelming response to Frontier services in Reno. We could have boarded considerably more passengers if seats were available beyond Reno to Denver.

IV. ESSENTIAL AIR SERVICE ROUTING

We concur with the community comment filed by Modesto regarding one-stop service in competitive markets and we are requesting that separate carriers be named to provide essential air service in the Stockton and Modesto markets. The purpose of this request is to create a competitive atmosphere between the two cities which hopefully in turn will be reflected in the level of service, fares, reliability, etc. One of the historical problems that we have identified from commuter type service is that the carriers tended to short cut market development by linking Stockton and Modesto on the same route and thereby further detract from the services being provided. For example, with the service currently offered by Aspen Airways, three of five flights make intermediate stops in Modesto. Even an aircraft bound for San Francisco will fly south to Modesto (25 miles) and then continue West-Northwest to San Francisco. The net effect of such a service pattern is that the Stockton air traveler (rather than spend time on the ground in Modesto at an intermediate stop and risk the possibility of a canceled or delayed flight) will simply drive the extra distance to a neighboring airport for non-stop jet service. We believe that such a service pattern is unfair to the citizens of this region; they either have to go via an indirect routing or have to bear the inconvenience of driving to a distant airport.

V. SUBSIDY

This community is philosophically opposed to using Federal tax dollars to subsidize air service at SCK. We believe that had it not been for the previous placement of inadequate carriers in the market it would have remained viable. However, because of the damage that has been done we do feel that a subsidy is now necessary to recover the market. We are confident that 600,000+ people will support air service without subsidy provided the service is what the public expects. We believe that continued long term subsidy of inferior commuter type activities will ultimately cost the federal taxpayers more than if the CAB would concentrate its resources on a short term basis to assist with the type of air service that the community believes to be essential but which may not necessarily fit the CAB's definition. We believe the CAB would be money ahead by supporting the community's efforts to locate a carrier that the community is willing to support rather than continue to impose inferior commuter type service. At any rate, we do not believe that any airline, either commuter or jet operator, should be given a "blank check" type subsidy for air service. We believe that there should be certain minimum operating standards imposed that if not satisfied by the carrier would result in lower subsidies. There should be some incentive for a carrier to complete 98+ percent of the scheduled flights, to operate 85+ percent on time, make a serious marketing effort, etc. We feel that the many factors that determine successful air service could be weighted and a formula developed to provide a level of compensation consistent with the level of service that the community received during a given period.

VI. ESSENTIAL AIR SERVICE ROUTE PRIORITY

The CAB has designated San Francisco and Los Angeles as essential air service hubs for Stockton. Historically, air service to San Francisco has been for access to the national air transportation system via on-line or interline connections. The Los Angeles market on the other hand has primarily been a destination market for either business or pleasure. There has been in the past a limited amount of connecting activity at LAX. Inasmuch as Frontier Airlines is providing jet service to RNO (a medium hub) and DEN (large hub), our need for service to SFO has been reduced somewhat. Access to SFO for connections to the Pacific and other points not readily accessible via Frontier, is still necessary. However, historically, our major market has been to southern California and that is the market in which our lack of service has been so sorely felt. Recognizing that the CAB has limited resources we would request that efforts be made to provide adequate air service to LAX first, and SFO second.

VII. COMPARISON OF PROPOSALS

A. Aircraft

Air Chaparral - 19 passenger Metroliners. The Metroliner was introduced in this market by Golden Gate Airlines and was not well received. Most frequent complaints heard were:

- o Inability to stand erect; close cabin.
- o Cabin interior noise level very high.
- o No flight attendant or inflight services.
- o No restroom facilities; significant when considering the length of the Stockton-Los Angeles route.
- o Operating restrictions placed on the aircraft. For example, (1) a Metroliner could not be served at one of the major gates at LAX and would be forced to operate from the inconvenient commuter terminal; and (2) hot summer days imposed weight restrictions due to density altitude.

Aspen Airways - Convair 580. The main attribute of the Convair 580 is that it is a large 50-passenger aircraft. Passengers are able to stand fully erect. However, the equipment is 30 years old and this is widely known and of concern to some passengers. Cabin noise and vibration is high; inflight service and restroom facilities are available:

Pacific Express - BAC-1-11. Pacific Express is proposing to re-institute non-stop pure jet service in the Stockton-Los Angeles market with 78 passenger aircraft. Without question, large jet equipment is superior compared to turboprop equipment in this market. We are particularly impressed at the quality of Pacific Express' equipment -- with new modern paint scheme; completely refurbished interior, including carry-on luggage racks; attache storage facilities and overhead enclosed baggage bins. This type of equipment is what we believe to be essential to return our air service market to viability.

West Air - 8 passenger Cessna 402. Cessna cabin class equipment has not been used in the Stockton market. However, Yosemite Airlines operated Piper Navajo's for a short period of time. Based on the Yosemite experience we found that there is no more rejection of the piston engine airplane than of a Metroliner. Although this equipment is not ideal we feel the more important factors would be frequency and reliability to SFO. As mentioned earlier, we feel that access to SFO is somewhat minimized in light of Frontier's connecting service via RNO and DEN. Therefore, we are less concerned regarding the 402 service to SFO as we might otherwise be if the Frontier service was not available in this market.

B. Company Management

Air Chaparral - We are concerned with the limited experience of this organization inasmuch as it has only been in existence since 1978. We are also concerned by the diversity of the company (i.e., bank runs through Nevada; cargo operation hubbed in Spokane, Washington; now a commuter airline in California; as well as an aircraft brokerage operation). We feel that such a diverse organization, and limited management team as outlined in the stock prospectus, would not be able to give adequate attention to air service in this particular market.

Aspen Airways - We have only had minimal contact with Aspen Airways' management personnel from Denver. We are concerned, because of the distance of such personnel in Denver, that it would be difficult to properly communicate our day to day problems with management. However, Aspen has stood the test of time for 28 years, which says a lot for the management organization. We are also concerned about the recent death of Mr. Rigsby, the owner of Aspen Airways. It will remain to be seen what impact his passing will have on the airline operation, if any.

Pacific Express/West Air - We are extremely impressed with the management team assembled by West Air Holding, Inc.; Terry R. Ashton, as Board Chairman and Chief Executive Officer, who was previously Vice President-Marketing and Planning with Hughes Airwest; Fred Davis, Vice President - Marketing, previously with Air California and very highly regarded in the industry; Stan Cobb, Vice President, previously with Pan Am, Boeing and NASA; and John Huffington, previously with Air Florida and Air California; Parlen McKenna, counsel with CAB experience; and an excellent in-house and outside finance team --

It is mainly because of the quality of the energetic management group assembled to operate Pacific Express that this community has considerable confidence in supporting this proposed airline.

C. Service Pattern

Air Chaparral - We are pleased that Air Chaparral is proposing all non-stop service in the San Francisco and Los Angeles markets. However, frequency and number of seats in both markets is lacking.

Aspen Airways - The frequency and available seats proposed by Aspen in the Stockton-Los Angeles and Stockton-San Francisco markets is adequate for the type of service being provided. Unfortunately, the service pattern that exists now where three of five flights make intermediate stops in Modesto, is continued in the proposal. For reasons identified earlier, we would prefer to see all non-stop service in this market.

Pacific Express - Pacific Express is proposing to operate three non-stop jet flights to LAX. We are extremely pleased with the timing of the flights and particularly with the fact that Pacific Express has agreed to dedicate one aircraft specifically to the Stockton-Los Angeles route initially. This should result in near perfect on-time performance. Pacific Express proposes to RON the aircraft at SCK after the fog season, therebyallowing an earlier departure to LAX.

West Air - We are pleased with six flights a day, non-stop, to SFO even though this will only result in 48 seats per day shared with Merced. As indicated earlier, we believe that frequency and reliability will prove to be more important in this market than large equipment.

D. Proposed Fares

Air Chaparral - Based upon the Air Chaparral proposal, we are unclear as to exactly what the fares would be in the San Francisco and Los Angeles markets. However, we assume that they would be comparable to the $35 fare to SFO and the $70 fare to LAX, shown for Modesto. If such is the case, we believe that customer acceptance would be minimal in light of the fact that pure jet service is available at considerably discounted rates via neighboring airports. Specifically, from Sacramento Metro Airport the discount fare to LAX is $36 and the discount fare to SFO is $23. During a meeting in Stockton with representatives of Air Chaparral, there appeared to be a willingness on the part of Air Chaparral to institute certain promotional fares in the market initially in order to repair previous damage. However, if the ultimate objective is to reach fare levels of this magnitude we do not believe that long-range success of such a carrier is possible in this market.

Aspen Airways - We assume that Aspen would maintain the same coach fares as currently in existence -- $77 to SCK-LAX, and $39 SCK-SFO. These fares have been supplemented with a "popcorn" fare which involves a discount to $47 in the Los Angeles market and $25 in the San Francisco market. However, we do not believe such service would be successful in the long run. We have petitioned Aspen management to reduce fares below jet costs initially to expose the public to the Aspen service and to reflect the infereior equipment and routing. However, this request resulted only in the suspension of restrictions on the popcorn fares. Currently, it costs the Stockton passenger $11 more to fly to LAX on a 30-year old turboprop airplane, with one of two flights stopping in Modesto first vs. flying non-stop on a modern jet from Sacramento. Therefore, it is not surprising that local acceptance of the Aspen service, to date, has been minimal.

Pacific Express - Pacific Express is the only carrier of the three to be offering competitive service with neighboring airports in all respects. The SCK-LAX fare will be $59 coach and $39 discount, which is competitive to Sacramento and Bay Area airports. In addition, Pacific Express has indicated a willingness to offer certain promotional fares initially, perhaps all seats available at $39. We would anticipate that if the Pacific Express service is instituted that the passengers actually served will be approximately three times greater than the passengers that would be served by either Air Chaparral or Aspen Airways.

West Air - the fare of $29 in the San Francisco market, all seats, is reasonable.

E. MISCELLANEOUS

Air Chaparral

We strongly disagree with the proposal to reduce our essential air service seats and to change the Los Angeles hub to Fresno. Fresno is not a critical community of interest for Stockton and if connections were necessary through Fresno, people would use neighboring airports. All of the community arguments regarding the necessity for having Los Angeles designated as a second hub for Stockton were covered in our EAS appeal and are still valid.

Aspen Airways

We are most concerned with the apparent lack of commitment to the community by proposing only a six month, sink or swim, option. We feel that this transfers all the risk to the community to try and sell a carrier that has already announced that it intends to terminate service if the market does not respond.

Further, the performance of Aspen has been marginal. There have been numerous cancelled flights, numerous late arrivals.

In addition, the six month period proposed by Aspen is during a historical slow passenger period and involves heavy fog conditions

Pacific Express/West Air - The CAB should weigh heavily the subsidy/passenger. Because we expect Pacific Express/ West Air to board at least three times the number of passengers than either Aspen or Air Chaparral would board, we expect the subsidy/passenger to be significantly less than the other proposals.

VIII. RECOMMENDATION

If the CAB will support the Pacific Express/West Air proposal, we, from the community standpoint will form a joint venture to ensure its success. However, because we believe the other two proponents are not likely to succeed, we will not obligate our limited resources in support of those proposals. The following items are what the community proposes:

- Because we are confident that only the Pacific Express/ West Air proposal has a chance for long term success; and because we know that if the CAB accepts another commuter type proposal it will be just a matter of time before we all go through this exercise again and taxpayers incur heavy subsidies for future entrants in the market; and as a major concession to the CAB to demonstrate the community's good faith and willingness to share risk, we will waive our rights to Essential Air Service in the Stockton-Los Angeles market upon expiration of the Pacific Express subsidy period. This will mean that if the Pacific Express service is not supported by the community, the CAB will not be exposed to future subsidy liability in this market.

- The County will establish a moratorium on paid automobile parking during the subsidy period as an incentive to use SCK vs neighboring airports.

- The County will request an amendment to our ADAP Grant (FAA) No. 14 to remodel the public areas of the Terminal Building at an estimated expense of $100,000.00 to the County, to encourage use of SCK by improving its overall appearance.

- The County will require that all County employees (approximately 3,400), when traveling by air on County business, originate and terminate their trips at SCK whenever reasonably possible.

- The County will institute flexible response time, as provided in Federal Aviation Regulation Part 107, upon receipt of a request from a carrier in order to minimize security expenses and thus CAB subsidy exposure.

- The County will freeze existing Terminal Building airline space rentals and landing fees during the Pacific Express subsidy period. Again, this will be done to minimize carrier operating expenses and CAB subsidy exposure.

- The County will reduce the fuel flowage fees for carriers that also pay a landing fee from five cents a gallon to one cent a gallon in order to minimize operating expenses and CAB subsidy exposure.

- The County will make necessary leasehold modifications to ticket counters and office space in the Terminal Building, to Pacific Express/West Air specifications. This work will be accomplished at cost and will be amortized for eight years at only 8 percent interest, as was done for Frontier Airlines.

- The County will form an Air Service Task Force, composed of prominent citizens from this region, with the objective of generating local support for Pacific Express, West Air and Frontier Airlines. In addition, the task force will work to ensure viable air service in the future.

Respectfully submitted,

Douglass W. Wilhoit
Chairman, San Joaquin County
Board of Supervisors

RICHARD S. YOSHIKAWA CHAIRMAN
FIRST DISTRICT
JOSE L. ALVA VICE-CHAIRMAN
THIRD DISTRICT
DOUGLASS W. WILHOIT
SECOND DISTRICT
GEORGE L. BARBER
FOURTH DISTRICT
EVELYN L. COSTA
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BOARD OF SUPERVISORS
222 EAST WEBER AVENUE, ROOM 701
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TELEPHONE (209) 944-3113

January 19, 1982

Mr. Patrick V. Murphy, Jr., Chief
Essential Air Service Division
Bureau of Domestic Aviation
Civil Aeronautics Board
1825 Connecticut Avenue, Northwest
Washington, D.C. 20428

Dear Mr. Murphy:

This is in response to your January 6, 1982 letter and is supplemental to our previous comments filed with the CAB, dated December 1, 1981 (Docket No. 40147), regarding proposals from various carriers to provide Essential Air Service (EAS) at Stockton, California.

Unfortunately, we have determined that it is impossible to prepare an objective analysis of the various proposed service levels and corresponding subsidy requests as outlined in your letter. Apparently, the CAB has elected to accept proposals that have no common criteria to facilitate such an objective comparison by the community. However, in our particular case, this is not a significant problem. As we indicated in our earlier comments, our major concern is the SCK-LAX market. We are confident that any common sense analysis will clearly reveal that the Pacific Express proposal is superior, in all respects, to the other two proposals. If the subsidy per seat, and the subsidy per passenger, is forecast for the remaining life (six years and nine months) of the EAS program, anyone could see that this proposal will result in the most efficient use of federal tax dollars. This would be true because of the larger jet equipment and because the initial subsidy will terminate on December 31, 1982. In addition, we believe that neither Air Chaparral nor Aspen Airways is likely to enjoy long-term success in this market. Their failure would result in continued turmoil, low passenger activity and substantial ongoing subsidy to future entrants.

Inasmuch as the Pacific Express and West Air proposal is indivisible, we will support whichever West Air alternative is chosen for the SCK-SFO market, provided Pacific Express is the designated EAS carrier in the SCK-LAX market.

We concur with the comments filed by the State of California, Division of Aeronautics, regarding various EAS proposals for six California communities, with one exception. We believe the Pacific Express/West Air proposal is a viable and desirable solution to this community's air service problems. Consequently, we wish to proceed with implementation of this proposal at the earliest possible date. Without the Pacific Express/West Air proposal, we would concur with each of the State's recommendations.

It is obvious to all concerned that the EAS program does not work in Stockton. With a minimum of flexibility, the Board can make the program work in Stockton. West Air suggests that the Stockton-San Francisco market requires four round trips. We concur; two round trips are not adequate.

The EAS definition, however, need not be substantially altered. As an example, the 80 seats presently authorized to both hubs can be allocated in a reasonable fashion; 32 seats to San Francisco and 48 seats to Los Angeles with a minimum of two round trips in each market. As we understand it, the Board has publicly stated many times that it will likely require at least two round trips, with the airlines deciding how many frequencies are adequate for a particular marketplace. Stockton, not unlike other EAS points, has two hubs. However, in this instance, there are significant differences in the service requirements to these two hubs. Service to distant Los Angeles, with high demand, requires large capacity and high speed service. Nearby San Francisco, on the other hand, requires frequencies but can sacrifice speed and capacity for a very reasonable subsidy. West Air's proposal offers the only workable solution to Stockton's dilemma. Moreover, to solve the problem, the Board need not do violence to Stockton's current EAS definition.

Also of concern to the community at this point, is access to the Los Angeles International Airport by Pacific Express (i.e., sufficient gate, ticket counter and other facilities). In addition, the aircraft landing slot program implemented by the Federal Aviation Administration for LAX could adversely impact the Pacific Express proposal. We request that the CAB take whatever steps necessary to ensure that Pacific Express gains access and adequate, well-timed, slots to provide this essential service to LAX.

Again, we would like to request permission to present oral arguments to the CAB members in the event the CAB staff recommendation is contrary to the community's support of the Pacific Express/West Air proposal. If this should become necessary, please advise with sufficient advance time to make travel and lodging arrangements.

For your information, we have enclosed resolutions and letters supporting the Pacific Express proposal from the San Joaquin County Board of Supervisors, Stockton City Council, Greater Stockton Chamber of Commerce, San Joaquin County Economic Development Association, City of Modesto, and the Modesto Chamber of Commerce.

For the record, we wish to state as clearly as possible that our support of the Pacific Express/West Air proposal in no way compromises the EAS determination that the City of Modesto is entitled to receive in both the MOD-SFO and MOD-LAX markets.

Finally, we are hereby requesting that Stockton be considered immediately should there be a delay in the pending EAS proceedings for Modesto and Merced, which are now included in the same Docket. We are concerned that any delay in deciding either the Modesto or Merced case may needlessly delay a decision for Stockton. Pacific Express/West Air and the County, have a number of items required to be accomplished prior to the start of service on March 15, 1982. These include such items as schedule filings with the Official Airline Guide, computer and telephone installations, execution of lease documents, leasehold improvements, etc. In addition, the air service we are currently receiving is inadequate, resulting in lost revenues to the Airport Enterprise Fund as well as a continuing disservice to San Joaquin County residents and other users of Stockton Metropolitan Airport. Time is of the essence.

Respectfully submitted,

Richard S Yoshikawa

RICHARD S. YOSHIKAWA
Chairman
Board of Supervisors
San Joaquin County

RSY:CED:JC:mhs
Attachments
cc: Congressman Norman Shumway
Assemblyman Patrick Johnston
Pacific Express/West Air
Aspen Airways
Air Chaparral

Order 82-5-130

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D.C.
on the 24th day of May, 1982

Essential Air Service for STOCKTON, CALIFORNIA and MODESTO, CALIFORNIA under section 419 of the Federal Aviation Act of 1958, as amended	Docket 40147

ORDER SELECTING ESSENTIAL AIR SERVICE CARRIERS

By Order 81-9-42, September 4, 1981, and Order 81-9-108, September 16, 1981, we solicited service proposals from carriers interested in providing essential air service at Stockton, Modesto and Merced. 1/ Proposals were filed by six carriers. On February 24, 1982, we heard oral argument on the choice of carrier for each of the three communities. We are selecting a carrier to serve Merced in a separate order; we will now select carriers to provide essential air service at Stockton and Modesto. 2/

We have carefully examined the proposals for both Stockton and Modesto and assessed each carrier's capability to perform the required service reliably. On the basis of this review and evaluation of other pertinent information, we have decided to select Aspen Airways to provide service at Stockton and Modesto in the Los Angeles market, and to select Air Chaparral to provide service at Stockton and Modesto in the San Francisco market. Air Chaparral will be compensated at rates of $222,197 for the first year of Stockton-San Francisco service

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1/ Our request for proposals was prompted by the cessation of service at the three communities by Golden Gate Airlines, Inc. and its affiliate, Swift Aire Lines, Inc.

2/ Essential air service at Stockton is defined as two daily round trips to both San Francisco (nonstop) and Los Angeles (a maximum of one stop), with 80 seats in each direction. Modesto's essential air service definition is identical to that of Stockton.

proposal: (1) four daily nonstop round trips in the Stockton-San Francisco market; and (2) eight daily round trips in the Modesto-San Francisco market, four via Stockton and four nonstop. 5/ WestAir would provide all service with 8-seat Cessna 402 aircraft.

Subsidy Proposals

Each carrier's proposal is detailed in Appendix G. Since the subsidy requirements of each proposal vary with respect to the number of markets involved, the type of rate (i. e., fixed, variable or ceiling), and the duration of the rate period, subsidy need comparisons are difficult. However, comparisons are particularly important in this case because the subsidy differences are substantial. Therefore, in Appendix H, we attempted to place the proposed subsidy rates on equal footing by restating them for comparable periods and by putting a ceiling on Air Chaparral's variable rates.

It is evident from the Appendix H comparisons that subsidy differences hinge to a great extent upon whether or not Pacific Express is selected to provide Stockton-Los Angeles service. If it is, the subsidy bill for both points combined will be dramatically higher than if it is not selected, not only for the initial rate period, but also for the long run. For instance, for the initial nine-month period, the subsidy requirements are the greatest, $2,520,261, with Stockton's preference of Pacific Express/WestAir and Modesto's preference of Aspen. The least subsidy requirement for the initial period is Air Chaparral at $557,262 for complete essential air service at both points. The difference between the two options is almost $2,000,000. Stated differently, selecting each community's preference could require as much as four and one-half times as much subsidy support. Pacific Express and Stockton make the argument that selecting Pacific Express would be cheaper over the long run because Stockton-Los Angeles would require no subsidy after nine months. However, viewing the total subsidy requirement at both Stockton and Modesto over a four-year and nine-month period indicates that subsidy is highest when Pacific Express is selected because Modesto service must be subsidized to compete with nearby jet service. For the four-year and nine-month period, the option for both communities' preferences totals $8,702,529, and the least subsidy requirement for this period is $2,146,505, the option which includes Aspen at both points to Los Angeles and Air Chaparral at

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5/ WestAir also submitted two proposals in the Modesto-Stockton-San Francisco markets that included service to Merced.

higher combined cost of separate services to Stockton and Modesto. Of course, the subsidy costs beyond the first nine months of service are speculative, but we are convinced that the subsidy differences between jet and non-jet operations as proposed here would be quite large.

By serving Stockton-Los Angeles and Modesto-Los Angeles on the same routing, Aspen would increase its flying time by about 20 percent but would approximately double its revenue base. This pattern of service for both points is a much more efficient operation than serving Stockton-Los Angeles with a jet and serving Modesto-Los Angeles separately; any cost advantage of jet service at Stockton therefore disappears if separate service to Modesto is also required. From a different perspective, splitting the two Los Angeles markets between Aspen and Pacific Express would require almost twice as many aircraft miles of service to meet essential air service requirements compared with service by Aspen with a Stockton-Modesto-Los Angeles routing. 8/ The only factor that could potentially override the apparent efficiency of through service is the possibility that Stockton travelers would not accept one-stop service over Modesto. Aspen's experience as an interim carrier dispells that possibility, since the Stockton and Modesto markets continue to grow. (See Appendix I).

Essential Air Service Requirements

WestAir's proposals contemplate four daily Stockton-San Francisco flights, or two more than required by Stockton's essential air service definition. (The seat requirement is met by Pacific Express' proposed service in the Stockton-Los Angeles market. 9/) Although we are precluded from considering an applicant's compensation rate for service proposed in excess of essential air service, WestAir would not negotiate a lower rate for just two daily San Francisco flights.

In addition, essential air service from Stockton and Modesto to San Francisco is required to be nonstop. However, Aspen's proposed San Francisco service from either point would involve a stop at the other, thereby failing to meet the nonstop requirement.

Air Chaparral's proposed service to San Francisco meets the essential air service requirements to San Francisco.

8/ Along these same lines, any of Aspen's proposals would require a total of four slots at the congested San Francisco and Los Angeles airports and Aspen already has these slots. On the other hand, a Pacific Express/ WestAir proposal in conjunction with any other alternative for Modesto essential air service would require 10 slots. An Aspen/Air Chaparral combination would require 6 slots.

9/ WestAir's proposals are made in combination with Pacific Express' proposal.

Angeles service from a passenger acceptance standpoint. However, that advantage is diminished by the quality of Aspen's proposal which also contemplates large (48-seat) aircraft for which passenger acceptance has been increasingly evident. Furthermore, the advantage of the BAC-111 proposal is heavily outweighed by the enormous difference in subsidy expense for support of service to both cities. Stockton already has jet service by Frontier to Denver and is only one of many cities around the country that would like additional jet service. Our general policy has consistently been to leave decisions about whether a community should have jet service to the market.

Although Modesto favors service by Aspen to both hubs, we believe that the community will understand the economic arguments of our selection of Air Chaparral to San Francisco, and will find that decision to be acceptable.

Our selection of Aspen and Air Chaparral has the advantage of providing each community with two reliable and well-established carriers. 13/ We do not foresee the failure or unexpected exit of either carrier. However, should either occur, the remaining carrier could be in a position to replace the other.

SUBSIDY-FREE SERVICE PROPOSAL

At our April 1 sunshine meeting, we stated our intent in this case to select Air Chaparral for service to San Francisco and Aspen for service to Los Angeles. On April 2, WestAir Jet, Inc. d/b/a Pacific Express and WestAir Commuter Airlines, Inc. withdrew their proposals to provide essential air service with subsidy at Stockton. They stated that they intended to serve Stockton without compensation and requested us to designate them as the essential air service carriers for Stockton. In support of their request, Pacific Express and WestAir state that "officials of San Joaquin County have indicated a willingness to provide whatever financial aid is necessary consistent with their ability. Pacific Express and WestAir propose to provide the following service without Federal subsidy: (1) between two and three daily jet round trips to Los Angeles; (2) two nonstop jet round trips and at least two nonstop round trips with WestAir's non-jet equipment to San Francisco.

13/ Pacific Express, on the other hand, is a newly certificated carrier providing low fare jet services and its ability to be profitable has not yet been established.

In Order 81-4-188, April 30, 1981, following the receipt of a similar proposal to provide subsidy-free essential air service, we stated: "When a carrier notifies us that it will provide nonsubsidized service, we must closely examine its capabilities and reliability to determine whether it can reasonably provide such service without subsidy." (footnote omitted) 16/ As we noted earlier, Pacific Express is a newly certificated carrier and its ability to be profitable has not yet been established. After a rate conference with the carrier, the staff concluded that the carrier's estimate that it needed nearly $800,000 of Federal subsidy in order to provide jet service in the Stockton-Los Angeles market appeared reasonable. Furthermore, although the community has not informed us how much monetary assistance it will be able to provide Pacific Express, 17/ the evidence suggests that it will not be able to contribute the $800,000 that Pacific Express told us that it found reasonable. 18/

If we were to rely on Pacific Express to provide essential air service without subsidy and Pacific Express were to drop out of the market, additional subsidy would likely be needed to redevelop the Stockton market. Yet, even if Pacific Express were to succeed with the assistance of funding by San Joaquin County, we would still be faced with the problem of having to pay higher subsidy over the long term to support service at Modesto than we would by selecting Aspen and Air Chaparral. Therefore, while we encourage Pacific Express and WestAir Commuter to enter the Stockton markets, we will not alter our decision to select other carriers and to compensate those carriers for the service they will provide.

ACCORDINGLY,

1. We select Air Chaparral, Inc. and Air Chaparral, Inc. d/b/a Inland Empire Airlines to provide essential air service between Stockton and Modesto, California and San Francisco, California for a two-year period;

2. We select Aspen Airways, Inc. to provide essential air service between Stockton and Modesto, California and Los Angeles, California for a two-year period beginning July 1, 1982;

3. We set the final rates of compensation for Air Chaparral's provision of essential air service at Stockton and Modesto, California as set forth in Appendix C;

16/ Order 81-4-188, at p. 4.
17/ In its Motion for Leave to File an Otherwise Unauthorized Document, Pacific Express stated that the County of San Joaquin had offered it $10,000 a month to advertise jet service at Stockton.
18/ At Oral Argument, when asked whether San Joaquin County could subsidize jet service with a cost of $800,000 for one year, County Supervisor Douglass W. Wilhoit responded, "I think there may have to be some small contribution." (Tr.-p. 29)(Emphasis added) When asked whether it would be a problem for the County to subsidize jet service, County Administrator Charles E. Dixon testified, "Absolutely....[I]t would be quite difficult."

AUG 13 1982

S. J. COUNTY DEPT. of AVIATION
METROPORT

Order 82-8-47

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D.C.
on the 9th day of August, 1982

SERVED AUG 10 1982

Essential Air Service for :
:
STOCKTON, CALIFORNIA :
and :
MODESTO, CALIFORNIA :
:
under section 419 of the Federal :
Aviation Act of 1958, as amended :

Docket 40147

ORDER

By Order 82-5-130, May 24, 1982, we selected Aspen Airways, Inc., to provide essential air service in the Modesto-Los Angeles and Stockton-Los Angeles markets. The order set a final subsidy rate for Aspen for the first 275 days of service as the selected essential air service carrier 1/ as follows: forecast costs (including a profit element) minus actual revenues, subject to a subsidy ceiling of $594,666 for the entire period. Aspen was expected to begin operating under the new rate instead of the interim service rate on July 1.

On June 22, 1982, Aspen filed a petition for a 120-day delay of the July 1 effective date of the rate established in Order 82-5-130. By Order 82-7-7, July 1, 1982, we denied Aspen's request for a 120-day delay and set an effective date for the rate of August 1, 1982, provided that Aspen file a letter to accept the rate on or before August 1. That order indicated that if Aspen decided not to accept the rate we would review immediately alternatives for resolving the essential air service case, most likely by reexamining the record of the carrier selection case in light of intervening developments.

On July 2, 1982, in an answer to Aspen's petition for delay of the effective date of the rate, the County of San Joaquin requested that the petition be denied and that we release Aspen of its service obligation at Stockton and designate Pacific Express (Westair Jet, Inc. d/b/a Pacific Express) to provide the essential air service to Los Angeles on a subsidy-free basis.

1/ Aspen has been providing essential air service in the Stockton/Modesto-Los Angeles market on an interim basis since last fall, after Golden Gate ceased operations.

has indicated that it will continue to operate in the Modesto-Los Angeles market while we complete our review of the essential air service case for that point.4/ At the time that we selected Aspen to provide Stockton/Modesto-Los Angeles service, there were two applicants proposing to provide essential air service between Modesto and Los Angeles, Aspen Airways and Air Chaparral. We have decided to reexamine the record in that case to determine whether we can make a new selection between those two applicants for the Modesto-Los Angeles service. In order to ensure that our decision is based on the most current estimates of subsidy need and service patterns excluding the Stockton service which has now been removed from consideration, we will give Aspen and Air Chaparral until August 13 to update or amend their proposals for Modesto-Los Angeles service in light of our action here. 5/ The carriers should serve copies of any revisions on the community and the State. We will give the civic parties until August 23 to file comments on the carriers' service/subsidy proposals. Afterwards, we will reexamine the record and either select Aspen or Air Chaparral to provide the Modesto-Los Angeles service or reopen the Modesto-Los Angeles portion of the case, whichever is appropriate.

ACCORDINGLY,

1. We will take no action to prohibit Aspen Airways, Inc., from terminating service between Stockton and Los Angeles, California, on or after August 15, 1982, provided that Westair Jet, Inc. d/b/a Pacific Express is providing two daily round trips in the market;

2. The interim subsidy rate set forth in Order 81-10-53, dated October 8, 1981, for Aspen shall only apply to its Modesto-Los Angeles service effective August 16, 1982;

3. We give Aspen Airways, Inc. and Air Chaparral until August 13, 1982, to update or amend their subsidy requests/service proposals to provide essential air service between Modesto and Los Angeles, California; and

4. We will serve a copy of this order on the Mayors and Airport Managers of Stockton and Modesto, California, the Board of Supervisors of San Joaquin County, the Governor of California, the California Department of Transportation, Air Chaparral, Inc. d/b/a Inland Empire Airlines, Aspen Airways, Inc., and Westair Jet, Inc. d/b/a Pacific Express and Westair Commuter Airlines, Inc.

By the Civil Aeronautics Board:

PHYLLIS T. KAYLOR
Secretary

(SEAL)

All Members concurred.

4/ Aspen will operate two round trips between Modesto and Los Angeles, one of which will operate beyond Modesto to Lake Tahoe.

5/ Our staff advised both carriers to review their proposals in anticipation of a possible, expedited procedural schedule for making any revisions.

BEFORE THE

CIVIL AERONAUTICS BOARD

WASHINGTON, D.C.

Ninety Day Notice of PACIFIC EXPRESS, INC. pursuant to section 419(a)(3)(A)(i) of the Act, of suspension of service at Stockton, California	Docket

NOTICE

Pursuant to Section 419(a)(3)(A)(i) of the Federal Aviation Act of 1958, as amended, and Part 323 of the Board's Procedural Regulations, you are served with the following notice:

1. The carrier whose service will be suspended is Pacific Express, Inc. The carrier's business address is 1103 Fortress Street, Chico, California 95926. Its telephone number is (916) 893-6500.

2. Pacific Express is a certificated carrier.

3. Stockton is also served by Frontier Airlines, WestAir Commuter Airlines, Inc., and Inland Empire Airlines, Inc. (Air Chaparral, Inc.) with the following number of daily flights to the following cities:

Frontier	Denver	Two flights
Inland Empire (Chaparral)	San Francisco	Two flights
WestAir Commuter	San Francisco	One flight

4. All service provided by Pacific Express at Stockton will be suspended effective May 20, 1983. Appendix A attached to this notice provides a complete description of the service that will be suspended.[1]

5. Pacific Express has suffered losses since it commenced its service at Stockton and continues to suffer losses.

6. The Civil Aeronautics Board has defined Stockton's essential air service as a minimum of two nonstop roundtrips each to Los Angeles and San Francisco daily providing 62 seats in each direction based on 40 passengers in each direction.

7. Because Pacific Express is the only carrier serving the Stockton-Los Angeles route, suspension will eliminate essential air service at the community unless a replacement carrier is found.

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[1] In the event that Pacific Express is selected by the Civil Aeronautics Board in Docket 40147 to provide essential air service at Modesto, California for a period of one year or more and to receive a subsidy for the service, the company intends to withdraw this notice.

8. Any person objecting to the suspension of service covered by this notice may file an objection with the CAB not later than March 10, 1983.

Respectfully submitted,

MARVIN S. COHEN
Stroock & Stroock & Lavan
1150 Seventeenth Street, N.W.
Suite 600
Washington, D.C. 20036
(202) 452-9250

Attorneys for PACIFIC EXPRESS, INC.

February 18, 1983

APPENDIX A

EFFECTIVE FEBRUARY 1, 1983

STOCKTON TO LOS ANGELES

FLIGHT	DEPART	ARRIVE	STOPS	FREQUENCY
141	7:00A	7:59A	0	Ex. Sat. & Sun.
135	8:50A	10:20A	1	Sat. only
147	5:10P	6:55P	1	Sat. only
145	6:50P	8:00P	0	Ex. Sat.

LOS ANGELES TO STOCKTON

FLIGHT	DEPART	ARRIVE	STOPS	FREQUENCY
144	7:50A	9:35A	1	Sat. only
142	8:30A	9:35A	0	Ex. Sat.
148	3:00P	4:40P	1	Sat. only
146	5:15P	6:20P	0	Ex. Sat.

STOCKTON TO SAN FRANCISCO

FLIGHT	DEPART	ARRIVE	STOPS	FREQUENCY
142	9:50A	10:15A	0	Ex. Sat.
144	9:50A	10:15A	0	Sat. only

SAN FRANCISCO TO STOCKTON

FLIGHT	DEPART	ARRIVE	STOPS	FREQUENCY
141	6:15A	6:40A	0	Ex. Sat. & Sun
135	8:00A	8:30A	0	Sat. only

1. All flights operate with BAC-111 equipment.

BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D.C.

Essential Air Service for STOCKTON, CALIFORNIA under Section 419 of the Federal Aviation Act of 1958, as amended	Docket 41296

ANSWER OF SAN JOAQUIN COUNTY TO NINETY DAY NOTICE OF INTENT TO SUSPEND SERVICE FILED BY PACIFIC EXPRESS, INC. ON FEBRUARY 18, 1983

Communications with respect to this answer, should be addressed to:

Jose L. Alva
Chairman, Board of Supervisors
San Joaquin County
Courthouse - Room 701
222 E. Weber Avenue
Stockton, CA. 95202

Jeff Condrey
Airport Manager
5000 S. Airport Way, Rm. 202
Stockton, CA 95206

March 8, 1983

By this answer San Joaquin County, representing the greater Stockton, California community, objects to the ninety (90) day notice of intent to suspend service filed by Pacific Express, Inc. (Pacific Express). Attached is a certified copy of a Resolution of the San Joaquin County Board of Supervisors authorizing this answer.

I. Introduction

By letter dated March 3, 1983, San Joaquin County requested an extension to the March 10, 1983 deadline for filing this objection. The purpose of such an extension was to discuss with the Modesto parties the merits of creating a regional airport to serve the greater Stockton/Modesto area. On March 7, 1983, a meeting of certain elected officials from the City of Modesto, Stanislaus County and San Joaquin County, was held in Modesto. A second meeting is scheduled for March 25, 1983 to finalize the position of each entity relative to a regional airport. During the interim (March 7 - March 25) a survey of air travellers within the greater Stockton/Modesto area will be conducted to determine the advantages and disadvantages of a regional airport. San Joaquin County would have preferred to determine the final position of affected parties before filing this objection. However, the Civil Aeronautics Board denied our request for extension of time to file this objection. Therefore, the following position is that of San Joaquin County and may or may not be supported by the City of Modesto and Stanislaus County. San Joaquin County reserves the right to amend this position.

II. Background

Congress directed the Civil Aeronautics Board to develop a ten (10) year program to transition small communities from a regulated air transportation system to a deregulated environment. At the mid-point of the Essential Air Service (EAS) program, it is painfully obvious to the communities, and should be to the Civil Aeronautics Board, that the EAS program is not working in the Stockton/Modesto area. Following a series of failed EAS carriers during the past four and one-half years, air travellers have no faith in local air service. Rather than wean communities from subsidy in order to face a deregulated environment, the Civil Aeronautics Board has actually weakened the ability of the greater Stockton/Modesto market to stand alone. San Joaquin County remains philosophically opposed to subsidized air service. However, we continue to believe that Pacific Express should be entitled to receive a short term subsidy to reconstruct this market which was destroyed by the placement of unfit carriers in the market by the Civil Aeronautics Board.

III. Current Problem

On May 4, 1982, Pacific Express initiated subsidy free jet service in the Stockton-Los Angeles market. Thirty (30) freeway miles to the south, the Civil Aeronautics Board has subsidized the competition (Aspen Airlines) at the outrageous rate of $212,000 per month. This distortion of the marketplace naturally created unprofitable operating conditions for

Pacific Express in Stockton. Incidentally, Pacific Express has reported that inflight surveys demonstrate that 35% of their passengers originate from the Modesto/Stanislaus County area. Frontier Airlines estimates 40-45 percent originate from the same area. It is suspected that more passengers from Modesto/Stanislaus County are served from what is currently known as the Stockton Metropolitan Airport than from the Modesto City/County Airport.

If Pacific Express fails in this market, and if the Civil Aeronautics Board responds as in the past, a commuter carrier operating propeller-driven 17-50 passenger aircraft, under subsidy, will probably replace Pacific Express on SCK-MOD-LAX routing. This type of "air service" has not and will not succeed in this market and subsidy will be required through 1988 when the EAS program expires.

IV. Proposed Solution

San Joaquin County believes the Stockton/Modesto - Los Angeles market is a marginally profitable jet route. As previously mentioned, no carrier has the resources to compete with the Federal Government and, unlike jet service, commuter operators will likely require perpetual subsidy. Therefore, San Joaquin County hereby petitions the Civil Aeronautics Board to redefine the Essential Air Service determinations for Stockton and Modesto, California, as follows:

- Designate Stockton-Modesto a single hyphenated point eligible to participate in the Essential Air Service program.

- o Both major population centers shall then access the national air transportation system via the Stockton/Modesto Regional Airport.
- o Revised EAS determination for Stockton/Modesto shall be dual hub (San Francisco and Los Angeles) with maximum eligible seats at 80 per day.

Furthermore, it is requested that the Civil Aeronautics Board provide Pacific Express subsidy at one regional airport rather than two eligible EAS airports. Such subsidy, if necessary, shall be short term until the previously viable market is reconstructed. With respect to Los Angeles service, the hypenated EAS eligible point of Stockton-Modesto should then remain subsidy free.

Respectfully submitted,

José L. Alva

JOSE L. ALVA
Chairman
San Joaquin County Board of
Supervisors

March 8, 1983

METROPORT
STOCKTON METROPOLITAN AIRPORT

Jeff Condrey, Airport Manager

April 26, 1983

Mr. William C. Boyd, B-69a
Chief, Essential Air Services Division
Bureau of Domestic Aviation
Civil Aeronautics Board
1825 Connecticut Avenue, N. W.
Washington, D.C. 20428

Dear Mr. Boyd:

This is in response to your April 15, 1983 letter regarding the recently concluded rate conferences with the six carriers proposing to provide Essential Air Service in the Stockton-Los Angeles market (Docket 40147). The following comments are on behalf of the greater Stockton community and have been specifically authorized by the San Joaquin County Board of Supervisors.

This community supports the service/subsidy proposal submitted by Pacific Express without qualification. Although the Civil Aeronautics Board (CAB) indicated in Order No. 83-4-70 that the incumbent position of Pacific Express in Modesto would not be a factor when deciding this case, we believe this is the overriding factor in Stockton. Pacific Express has provided uninterrupted service since May 4, 1982 and was designated as the essential air service carrier succeeding Aspen Airlines. In the event that the CAB staff recommends a carrier other than Pacific Express for Stockton-Los Angeles service, we hereby request the opportunity to present oral arguments before the full Civil Aeronautics Board, as was the case last year.

As requested in the above referenced letter, the following comments concern the regional airport issue. It continues to be the position of San Joaquin County that a regional airport serving the greater Lodi/Stockton-Modesto/Turlock area, would be in the best interest of both major population centers. At no time have we advocated that the community of Modesto be denied the right to essential air service. We simply advocate that such essential air service be provided from the only existing centrally located facility, rather than the Modesto City/County Airport, as is currently the case. It is suspected

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Owned and Operated by
The County of San Joaquin

that more passengers from the greater Modesto-Turlock area utilize what is currently known as the Stockton Metropolitan Airport (Metroport) than do the Modesto City/County Airport. Therefore, the community of Modesto does in fact receive convenient access to the national air transportation system as intended by Congress. It is our contention, based upon previous experience under the Essential Air Service Program, that CAB mandated service to two airports serves only to weaken the ability of the greater Lodi/Stockton-Modesto/Turlock market to stand alone in a deregulated environment without subsidy from the Federal Government, contrary to the intent of Congress. Furthermore, we believe the CAB is not a disinterested or powerless third party. The CAB has sufficient authority (Federal Aviation Act, Section 419(a)(2)(c), as amended) and the fiduciary responsibility to designate Stockton-Modesto a hyphenated point; both entitled to receive air service from one regional airport. However, we recognize that the likelihood of establishing a regional airport at this particular time is remote. This is due to resistance from the Modesto Chamber of Commerce and the fact that Pacific Express has initiated interim service in Modesto.

We are skeptical that Pacific Express can serve both Stockton and Modesto subsidy-free after the first year. We suspect that the inefficiencies created by serving both markets (i.e., (1) competing with themselves for Modesto passengers; (2) duplicate station personnel, rent and landing fees; and (3) the aircraft will have to be ferried between Stockton and Modesto because no passenger will pay for a nine-minute flight segment) will create a requirement for continual subsidy until the expiration of the Essential Air Service Program in 1988. If this should prove to be the case, we hereby request an opportunity for an evidentiary hearing before a CAB Administrative Law Judge to determine the feasibility/desirability of establishing a regional airport to serve two essential air service eligible communities in order to maintain adequate as opposed to essential air service to Southern California. Yet another carrier failure should prove conclusively that the Essential Air Service Program is not working in Stockton and Modesto.

Interestingly, had Modesto been classified as a 419-B point rather than a 419-A point, there is some question whether the community would have been eligible to be served separately under the Essential Air Service Program. In accordance with Part 270.12 of the CAB's regulations implementing the Essential Air Service Program, no point within 20 miles of a 419-A eligible point (i.e., Stockton) is eligible. From the front door of the Metroport terminal building to the northern Modesto City limits (where most air travelers reside) is 18-1/2 miles. From the southern boundary of the Metroport property to the northern area of downtown Modesto, is 20 freeway miles. The CAB, by adopting such a rule for 419-B points, clearly recognized the impracticability of mandating air service to affected communities that are geographically similar to Stockton/Modesto.

In summary, we support the proposal submitted by Pacific Express to provide essential air service to both Stockton and Modesto on a round-robin route. In the event this pattern of service is unsuccessful, we request that the CAB exercise its authority and fiduciary responsibility to explore (via an evidentiary hearing) the solution proposed by San Joaquin County (Docket 41296) to establish a regional airport providing essential air service to both communities.

Thank you for this opportunity to submit comments on the proposals. In the event an oral argument before the Board becomes necessary please provide as much advance notice as possible in order that we may make travel and lodging arrangements.

Respectfully submitted,

JOSE L. ALVA
Chairman
Board of Supervisors

JLA:JC:mlm

April 3, 1983

Guest Editorial
Stockton Record

By Douglass W. Wilhoit

Title: One Strong Regional Airport vs. Two Weak Airports
Subtitle: Successful Long Term Air Service vs. Essential Air Service

The issue of a regional airport to serve the greater Stockton/Modesto area has surfaced once again. San Joaquin County is now compelled to aggressively advocate a regional airport to protect our long term interests.

San Joaquin County residents, since the departure of PSA, have demanded reliable, reasonably priced non-stop air service to Los Angeles, preferably and properly on pure jet equipment. In response to community desires, we were successful in attracting Pacific Express to serve the greater Stockton/Modesto area. I include Modesto because inflight surveys by Pacific Express indicate that 35 percent of their traffic originates from Modesto/Stanislaus County. Frontier Airlines (our other jet carrier serving Reno, Fresno and Denver) estimates that 40-45 percent of their traffic originates from the Modesto/Stanislaus County area. It is suspected that more citizens of Stanislaus County utilize jet service at Stockton Metropolitan Airport (Metroport) than the propeller service available at the Modesto City/County Airport.

Almost unbelievably, during record Federal budget deficits, the Civil Aeronautics Board (CAB) has subsidized the competition (Aspen Airlines) in Modesto at the outrageous rate of more than $212,000.00 per month. Obviously, Pacific Express does not have the resources to compete with the Federal Government and has notified the CAB that Pacific Express is now forced to terminate unprofitable service at the Metroport unless a subsidy is provided.

The San Joaquin County Board of Supervisors believes Pacific Express should be entitled to receive a small short-term subsidy until the previously viable market (which was destroyed by the placement of unfit air carriers by the CAB) is reconstructed. We stated this to the CAB during hearings last year in Washington. They chose to ignore us, causing our current situation.

Most local air travellers assume that the CAB's Essential Air Service (EAS) Program will guarantee adequate air service. In actuality, the CAB has definitely hindered rather than helped our efforts to attract and retain adequate air service.

The EAS program guarantees Stockton only 62 seats inbound and outbound to serve San Francisco and Los Angeles. Theoretically, if a market requires more than 62 seats, free enterprise will meet the demand without subsidy. The EAS program is intended as the last remaining lifeline to keep a community connected to the national air transportation system. The program is oriented toward small propeller-driven commuter aircraft and is not required to guarantee adequate air service.

For example, Inland Empire Airlines (now in Chapter 11 Bankruptcy) is subsidized by the CAB to provide two non-stop round trips to San Francisco with eighteen passenger propeller-driven aircraft. This service provides 36 (2 flights x 18 seats) of the maximum eligible 62 seats. This leaves a balance of only 26 seats for Stockton-Los Angeles service. Modesto's current EAS determination is identical to Stockton's. As a result of the Pacific Express notice to terminate service, the CAB has combined Stockton and Modesto (as separate eligible points) into Docket 40147 to locate a replacement carrier for Pacific Express in Stockton and Aspen Airlines in Modesto.

The San Joaquin County Board of Supervisors is concerned that a carrier such as Wings West or Inland Empire, operating eighteen passenger propeller-driven aircraft, will replace the 73 passenger pure jet operated by Pacific Express. Consider for a moment whether an 18 passenger aircraft operating three flights per day on a linear route (Stockton-Modesto-Los Angeles) would satisfy the remaining 26 EAS eligible seats.

It is for this reason that San Joaquin County is compelled to aggressively advocate a regional airport. To replace non-stop jet service with one-stop service on a small aircraft would be a tragedy for both Stockton and Modesto. Remember that 35 percent of Pacific Express' passengers originate from Stanislaus County.

It is my firm belief that one strong regional facility would in the long run benefit both Stockton and Modesto far more than two weak airports.

It is not our objective to profit at Modesto's expense. On the contrary, to protect our mutual interest, elected officials from the City of Modesto, Stanislaus County and San Joaquin County met on March 7, 1983, and again on March 25 to discuss this issue. The discussions were very productive but no agreement was reached due to the fact the CAB has asked for new proposals and Pacific Express announced service into Modesto as a result of the CAB's actions. However, lines of communication have been left open which is most important in this age of deregulation and air service uncertainty.

The CAB has prevented Pacific Express from terminating service in Stockton until June 18, 1983. To minimize losses during the interim, Pacific Express will serve Modesto beginning April 4, 1983 in order to attract passengers riding Aspen Airlines. The Aspen service, grossly subsidized by the CAB, has attracted enough passengers to render the Stockton/Modesto service at the Metroport unprofitable. Pacific Express has already notified the CAB that it cannot serve Stockton and Modesto subsidy-free.

Common sense reveals the inefficiencies of maintaining two stations, nine minutes apart by air: (1) Pacific Express will be competing with itself for Modesto passengers; (2) duplicate station personnel, rent and landing fees are required, and (3) the aircraft must be ferried between Stockton and Modesto because no one will pay to fly a nine minute segment.

It is important to remember that Pacific Express will be competing with smaller, more efficient airlines for this subsidy. If a regional airport is not formed, which is the CAB going to subsidize - a 73 passenger jet or an 18 passenger turboprop? The answer is obvious, and that is precisely why discussions with the Modesto representative relative to a regional airport must continue keeping in mind the realities of today and the needs of this entire multi-County area for the future.

Even if Pacific Express is designated as the permanent replacement carrier under subsidy at both Stockton and Modesto, neither community can rest easy. In a deregulated environment there is no future in depending upon subsidy, and the inefficiencies created by jet service to both airports would require perpetual subsidy. Fortunately for the taxpayers, perpetual subsidy is not possible. On May 4, 1984, Pacific Express would be subject to "bumping" by an unsubsidized or lower subsidy carrier in Stockton. This would, of course, create a chain reaction in Modesto: more failed carriers, more turmoil, another year lost which could have been devoted to stabilizing air service at a regional airport and, most importantly, one year closer to the 1988 expiration of the EAS program.

The San Joaquin County Board of Supervisors is proposing to rename the demographically central and almost geographically central Metroport as the Modesto/Stockton Regional Airport. The distance from the front door of the terminal building to the Modesto city limits is 18.5 miles -- the same distance from the terminal building to Lodi. There is no choice of which airport would be designated as a regional facility.

Let me stress that our renewed efforts on the regional airport issue do not constitute a knee-jerk reaction to the current air service crisis.

This is a carefully considered, long-term solution to the air service turmoil which has plagued Stockton, Modesto, the CAB, travellers, and most importantly, the taxpayer, since deregulation in 1978. Furthermore, such effort is not specifically intended to benefit Pacific Express. We believe that the Modesto/Stockton Regional Airport (serving a population base greater than 600,000) will be successful in attracting and retaining carriers like Frontier Airlines. However, in a deregulated free market environment there are no guarantees. People looking for guaranteed air service are living in the past. Congress created the EAS program only to transition small communities from regulated air service to the free market, which is why the program will terminate in 1988.

Our choice is clear. We can either "Fly like an Eagle" and form a regional airport to attract adequate air service, or we can continue to use the EAS program as a crutch to maintain minimal service to both Stockton and Modesto and "scratch like a chicken" for the last half of the EAS program.

You can make a difference. Please write, in support of the Modesto/Stockton Regional Airport, to:

Mr. William Boyd
Chief, Essential Air Service Section, B69-A
Civil Aeronautics Board
1825 Connecticut Avenue, N.W.
Washington, D.C. 20428

Ref. Docket No. 40147

In addition, please contact friends, relatives and business associates in Stanislaus County and encourage them to express their support to local officials for the regional airport concept. Adequate air service, and the identity of both population centers, will economically enhance the entire region. Chambers of Commerce should then be able to point with pride at the jet service at the Modesto/Stockton Regional Airport rather than avoid the topic of air service with prospective businesses considering this region.

Thank you for your assistance.

Order 83-5-44

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D.C.

Adopted by the Civil Aeronautics Board
at its office in Washington, D.C.
on the 5th day of May, 1983

SERVED MAY 6 1983

Essential air service for :
MODESTO, CALIFORNIA :
under section 419 of the :
Federal Aviation Act of 1958, :
as amended :

Docket 40147

Notice of intent of :
PACIFIC EXPRESS, INC. :
to suspend service at :
Stockton, California, under :
section 419(a) of the Federal :
Aviation Act of 1958, as :
amended :

Docket 41296

ORDER SELECTING CARRIER AND ESTABLISHING SUBSIDY RATE

By Order 83-3-61, March 9, 1983, we requested that carriers interested in providing essential air transportation between Modesto and/or Stockton and Los Angeles file service/subsidy proposals by March 30, 1983.1/ (See Appendix A for a map.)

Proposals have been filed by six carriers — Air Chaparral, Air Resorts, C&M Airlines, Community Air Service, Pacific Express and Wings West. Rate conferences have been held with each carrier, the results of which are summarized in Appendix B.2/

The current essential air service determinations for Modesto and Stockton, which were established by Order 80-9-68, are identical. They require that at least two round trips a day be provided to both Los Angeles and San Francisco. Service to Los Angeles must be operated on a nonstop or one-stop basis, and service to San Francisco must be nonstop. If six- to eight-seat aircraft are used to provide the service, 80 inbound and 80 outbound seats are required. If

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1/ For background information, see Order 83-4-70.

2/ The table in Appendix B shows the markets to be served, frequencies, aircraft types, average fares, annual subsidy needs and compensation per passenger.

Air Chaparral filed comments alleging that the timing of Pacific Express' proposed flights is not in the best interest of the communities. Air Chaparral also contends that its plan of positioning an aircraft at the essential air service point for the initial departure of the day is beneficial to the reliability of the service. Air Chaparral also questions the advisability of reduced weekend service as proposed by Pacific Express.

After carefully evaluating the proposals of the applicants, the views and comments filed and other pertinent information, we have decided to select Pacific Express to provide essential air service for Modesto and Stockton for a two-year period. In accordance with the rate conference agreement, we will establish a subsidy rate of $432,939 for the carrier for the first year of its service. We have decided to defer establishing a rate for the second year until after we have examined the results being achieved during the first year.4/

It is imperative that the permanent replacement carrier for these markets be in place as soon as possible. Modesto has been served by an interim replacement carrier since September 1981, and that will soon change since we have agreed to Aspen's request to terminate its service at Modesto by May 15. For this reason, we have attached considerable importance on the carriers' ability to initiate replacement service in a relatively short period of time. We also recognize that these markets have been adversely affected by the frequent changes in air service that have occurred over the past few years. We believe that a good carrier able to provide stable air service over an extended period with proper promotional efforts should be able to develop these markets to be self-sufficient. For these reasons, we have placed considerable weight in our carrier selection decision on the ability of the applicants to integrate the proposed service into their systems and on their operating experience, which the Act requires us to consider.

In view of the above, we have carefully reviewed the current operations of each of the applicants and their experience in providing air service in the vicinity. Based on this review, we have eliminated from consideration Community, Air Resorts and C&M on the grounds that these carriers all would have to expand the scope of their operations substantially. As a result, the selection of any of these carrier would entail a degree of uncertainty for the communities. Given the past history of service at Modesto and Stockton and the availability of proposals from other carriers that could easily integrate the service into their systems, we do not believe such risks are warranted.

Specifically, Community Air Services is a paper company that currently has no capitalization, aircraft or FAA operating authority. Taking into account the steps that Community must complete before it can provide passenger service, we do not believe that Community could commence its proposed service in a reasonable time period. Air Resorts has little experience in scheduled passenger service, having just started its operations the end of last year. Moreover, the carrier's operations are all located in Southern California, and the establishment of stations and operations at Stockton and Modesto would be a significant expansion of its operations into Northern California. C&M is a small carrier operating between Inyokern, Palmdale and Los Angeles in Southern California. Until recently, the carrier was only operating 8-seat Cessna 402

4/ We note for the record that Pacific Express' proposal for reduced weekend service does not meet the technical requirements of the communities' determinations. However, the communities have not objected to this feature of Pacific Express' proposal and we therefore will waive the requirement for two round trips on each day of the weekend.

advantages of Pacific Express' proposal in terms of service and community support. We find that the overall level of subsidy ($216,470 per point and $7.54 per forecast passenger) are well within the averages for section 419 subsidy rates and are reasonable.

Pacific Express believes that it can generate sufficient traffic at the two communities to provide their service without subsidy after the first year. In fact the carrier agreed to provide service without subsidy for a second year. Although we share its hope that it can reestablish these markets in this manner, we are not confident enough to establish a rate for the second year at this time. The carrier's success in meeting this goal, however, depends upon the support of the communities for its service. We are encouraged in this regard by the unanimous support of both communities for the carrier. By our decision here to subsidize jet service in these markets we are affording the carrier and the communities the opportunity they have sought to accomplish this goal. All parties should recognize, however, that if the markets do not respond to the jet service, we may have to reexamine how best to provide essential air service for these communities.

Finally, as is our general policy, we have examined the reliability of Pacific Express to provide the proposed essential air service. Pacific Express has been providing service between Stockton and Los Angeles since the first half of last year and has provided continuous service in the market. It inaugurated service in the Modesto-Los Angeles market last month. Based on this operating experience and history, we are convinced that the carrier is capable of providing the service reliably. We are very concerned about the carrier's overall financial position given the systemwide losses it has incurred since inaugurating service. Nonetheless, given the communities' unqualified support for Pacific Express, we are willing to rely on the carrier to provide service in the markets at issue here. Therefore, we conclude that Pacific Express is capable of providing reliable essential air service between Stockton and Modesto, on the one hand, and Los Angeles, on the other.

ACCORDINGLY,

1. We select Pacific Express, Inc., to provide two round trips on weekdays and over the weekend period between Modesto and Stockton, California, on the one hand, and Los Angeles, on the other, with BAC-111 aircraft for a two-year period beginning on the date of this order;

2. We set the final rate of compensation for Pacific Express' provision of essential air service at Stockton and Modesto, California at $432,939 for its first year of service 6/, payable as follows: For each calendar month during which essential air service is provided, the amount of compensation shall be determined by multiplying the completed available seat miles during the

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6/ This rate will become effective on May 15 or when Aspen terminates its Modesto-Los Angeles service, whichever occurs first.

APPENDIX A

Stockton
San Francisco
Modesto
Los Angeles

BOARD OF SUPERVISORS
222 EAST WEBER AVENUE, ROOM 701
STOCKTON, CALIFORNIA 95202
TELEPHONE (209) 944-3113

JOSE L. ALVA, CHAIRMAN
THIRD DISTRICT
GEORGE L. BARBER, VICE-CHAIRMAN
FOURTH DISTRICT
RICHARD S. YOSHIKAWA
FIRST DISTRICT
DOUGLASS W. WILHOIT
SECOND DISTRICT
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FIFTH DISTRICT

CA/C&L

ND
NR

Barbara

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B-2	B-70
B-3	B-60
B-4	B-59
B-5	B-40
Mg. Dir.	B-50
Gen. Couns.	B-90 ✓
Ex. Spc.	B-7
B-10	B-8
	B-9

B-60

May 25, 1983

Sent to John
FYI

Mr. Dan McKinnon, Chairman
Civil Aeronautics Board
1825 Connecticut Avenue
Washington, D.C. 20036

Dear Mr. McKinnon:

This letter has reference to Civil Aeronautics Board Order No. 83-5-44, concluding Docket 40147 regarding Essential Air Service (EAS) for Stockton and Modesto to Los Angeles.

As one of the two communities involved with what was probably the most complex and lengthy EAS proceeding to date, we were quite disappointed to learn that you personally delivered the Order to Modesto and did not bother to drive 25 minutes north to meet with the Stockton parties. Had you done this, you would have appreciated the geographic proximity of Stockton and Modesto, and the conveniently central location of the proposed regional airport.

I recognize that the CAB considers the issue of a regional airport to be a local matter, however, I must respectfully disagree. As I indicated in my April 26, 1983 letter to Mr. William C. Boyd, Chief of the Essential Air Service Division, we are skeptical that Pacific Express will be able to provide long-term unsubsidized service to both Stockton and Modesto. If this should prove to be the case, the responsibility will rest with the CAB, not with the communities as you apparently indicated at your luncheon speech in Modesto.

It is my understanding that one of the major policy issues before the CAB at this time is the transfer of certain responsibilities, including the EAS Program, to other federal agencies after CAB sunset in 1985. Apparently, there is considerable concern that the Department of Transportation would not be as insulated from political influences as the CAB when administering the EAS Program.

San Joaquin County works with a number of departments within the executive branch of federal government and I cannot think of a single instance that has involved more political influence than this recent proceeding before the CAB. For example, when Congressman Coelho testified before the CAB in February of 1982, he indicated that it was inappropriate to subsidize a jet carrier under the Section 419 EAS Program. The CAB concurred, contrary to the wishes of Stockton. Now, Congressman Coelho's position has changed 180 degrees, as has the CAB's. Finally, to add insult to injury, you personally deliver the CAB Order to Modesto without any notice or invitation to the Stockton parties. Based upon our experience, I am certain that the Department of Transportation would be no less subjected to political manipulation than is the CAB with respect to EAS matters.

On your next trip to the Bay Area we would be happy to host a reception for you in San Joaquin County to show the other side of the Stockton-Modesto equation.

Sincerely,

Jose L. Alva

JOSE L. ALVA
Chairman

JLA:jgs

cc: Honorable Richard H. Lehman
Honorable Norman D. Shumway
Honorable Peggy Mensinger

INFO. ONLY COMM. #4 6/28/83

THE CHA
OF THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C. 20428

JUN 1 5 1983

RECEIVED
JUN 2 0 1983
BOARD OF SUPERVISORS

Mr. Jose L. Alva
Chairman, Third District
Board of Supervisors
222 East Weber Avenue
Room 701
Stockton, California 95202

Dear Mr. Alva:

Thank you for your letter of May 25 and your frank thoughts concerning our selection of Pacific Express as the essential air service carrier for Stockton and Modesto.

Obviously I am aware of the proposed regional airport concept and the disagreement between the communities concerning its merits.

I had the opportunity to discuss the subject with several people from Stockton at a reception hosted by Congressmen Shumway and Lehman in the Longworth Office Building in Washington, D.C. early in April.

As I have pointed out on several occasions, the idea of a regional airport for Stockton and Modesto is interesting and perhaps the ideal situation.

However, according to the Airline Deregulation Act, each eligible community is entitled to its own essential air service until 1988.

Therefore, unless the communities jointly sponsor a proposal to redefine essential air service as flights to a regional airport, both Stockton and Modesto will continue to receive essential air service at their local airports.

The Board does not have the authority to alter this arrangement.

Our decision to select the jet carrier to provide EAS between Stockton/Modesto and Los Angeles was based on a thorough analysis of the advantages and disadvantages of the six proposals before us.

As in every case, we examined the issues of service and subsidy along with the operating experience of the applicants and community views.

We concluded on the basis of this analysis that Pacific Express was the preferable choice.

Community input is important in these decisions and we always obtain the community's views before making carrier selections. The recognition of local sentiments, therefore, cannot be regarded as yielding to political intimidation.

The reason I went to Modesto was to explain our decision to the community leaders and point out that, if they want continued jet service, they will have to support their essential air service carrier. Modesto, of course, received its first long-term commitment for Pacific Express jet service as a result of our decision. Stockton, on the other hand, has been served by Pacific Express for over a year.

For either community, if the market fails to develop and Pacific Express, a low cost jet operator, loses money, we probably could not continue to subsidize this level of service.

If we are forced to conduct a new carrier selection proceeding, it is extremely unlikely that another jet carrier could provide service at a reasonable cost.

Instead, I would predict a return to smaller, non-jet aircraft.

Unfortunately, I did not have the opportunity to meet with Stockton officials during my recent visit to California. I was under an extreme time constraint that day. I had given a speech at Stanford that morning, flew to Modesto for the luncheon and was scheduled to be at Edwards Air Force Base at 3:30 in the afternoon.

I felt that I had received substantial input concerning Stockton's views at the congressional reception. However, the next time I have the opportunity to be in your area, I'd be delighted to stop by and have lunch with you and other community officials.

I hope I have answered the questions you have raised in your letter. If there is anything I have overlooked, please let me know.

Best regards,

Dan McKinnon

Dan McKinnon

Mr. MINETA. Please proceed.

TESTIMONY OF JEFF CONDREY, AIRPORT MANAGER, STOCKTON METROPOLITAN AIRPORT

Mr. CONDREY. I would to express appreciation for the opportunity to present testimony to your committee regarding the essential air service program in general, and, more specifically, its impact on the greater Stockton, Calif., area. San Joaquin County owns and operates the Stockton Metropolitan Airport, which we refer to as the Metroport; which provides air service access to a large geographic region encompassing all or parts of San Joaquin, Stanislaus, Calaveras, Tuolumne, and Contra Costa Counties.

Now, this testimony is based on the following assumptions, and these are very key assumptions to our recommendations that follow. The first assumption is that the domestic airline industry will not be deregulated by Congress in any form. Second, we assume that the essential air service program will not be extended by Congress beyond 1988. And, third, we believe it is probable that Congress will accept recommendations from the General Accounting Office and the Civil Aeronautics Board to amend the Airline Deregulation Act of 1978, enabling more flexibility in the essential air service program. As a result communities such a Stockton and Modesto would be eliminated from the program, due to our close proximity to larger hub airports such as Sacramento, San Francisco, Oakland, and San Jose.

Mr. Chairman, if you will permit me, I will attempt to anticipate three of your questions and provide answers by way of introduction.

The first question would be: Why is San Joaquin County discussing Modesto in its testimony?

Now, the answer to that is that Frontier Airlines, which currently serves the Metroport, estimates that approximately 40 to 45 percent of their traffic originates from the Modesto area and points further south. Pacific Express estimated, prior to beginning service in April in Modesto this year, that 35 percent of their traffic at Stockton originated from Modesto and points further south. Now that Pacific Express has begun service at Modesto, passenger boardings at the Stockton station for May and June of this year, compared to May and June of last year, have decreased by 39 percent. The initiation of service in Modesto is not the only factor in this drawup, but it is probably the major factor.

Hopefully, you would agree that if we focused our attention only in Stockton and San Joaquin County we would be ignoring almost half of the larger area which we believe makes the difference between viable air service as opposed to continued dependency upon subsidies.

Second, why does the Federal Government continue to subsidize air service that is utilized by so few people?

This is a question that we often hear in the local community. Our major travel agents in the Stockton area estimate that only 20 percent of the air travel market utilize the Metroport and that the remaining 80 percent drive to neighboring hub airports. Now, this 20 percent of the air travel market represents a very small fraction of the general population. In times of record Federal budget deficits, we have difficulty responding to this question; in fact, we cannot halt the logic of the General Accounting Office report that certain communities within easy driving distance of hub airports be eliminated from continued subsidy. And that is one of the causes of our concern and recommendation for a solution.

Third, why continue to discuss the regional airport issue between Stockton and Modesto now that Pacific Express has entered the Modesto market?

San Joaquin County is skeptical that Pacific Express would be able to provide subsidy-free service to both Stockton and Modesto. Until Pacific Express systemwide is able to show steady net profits, and if and when both communities are served subsidy free, only then can the communities relax. Until that time we continue to believe that the regional airport is the likely solution to what has been continual turmoil since airline deregulation.

Mr. Chairman, it is not our intention to dwell on the problems of the past. Our testimony is oriented toward solving existing problems and working toward a long-term foundation for adequate air service in the Stockton-Modesto area. By way of background we have included in the appendix, in chronological order, a series of CAB orders of communication from San Joaquin County. I am sure, if the committee has time to study those, you will see the foundation for our policy recommendations that have evolved during the last 3 years.

I would request that you pay special attention to the last five items that reflect the most recent CAB proceeding. In terms of recommendations, our first recommendation would be that the House Subcommittee on Aviation immediately request that the Civil Aeronautics Board reevaluate the intent of Congress as expressed in the Airline Deregulation Act relative to continued air service at certain EAS eligible points which have chronic problems, such as Stockton and Modesto.

By way of background, the essential air service program has been successful at most points; however, there are a few points that have been failures, such as Stockton and Modesto. The major factor in such failures is the rigid set of guidelines adopted by the CAB to implement the essential air service program. San Joaquin County contends that Congress granted more flexibility in the act to solve such chronic problems than the CAB is willing to exercise. Communities such as Stockton and Modesto are proving to be exceptions, and, therefore, extraordinary remedial action is justified.

Our second recommendation is that the CAB should consider the ability of air carriers to compete with the automobile when selecting hubs to be served from an EAS eligible point. And once the hub is selected a major factor in a carrier selection process should be proof that a given carrier will be able to effectively compete with the automobile.

San Joaquin County contends that commuter service to San Francisco, 80 miles away, will not likely become subsidy free. The one-way fare is currently $45 and does not begin to compete with the cost of driving. We believe the CAB's limited resources could be more effective when applied to EAS markets such as Los Angeles, which is 315 miles away. Such markets are better suited for travel by air and, therefore, are more likely to be served without subsidy.

The third recommendation is that the essential air service program should be amended to include effective minimum standards for replacement carriers. Such standards should be most demanding for the largest EAS eligible point, such as Stockton and Modesto, and less restrictive for the smaller communities. Under the existing EAS guidelines, carriers such as United and PSA were replaced in Stockton by propeller-driven commuter aircraft operated by inexperienced airline entrepreneurs. Such commuters, although found fit, willing, and able by the CAB, would eventually fail financially and, in the process, destroy a substantial market. Had the CAB been able to replace PSA and United with a carrier such as Pacific Express, our market would have continued to grow.

The CAB was actually a hindrance to local efforts to restore jet service, because the existing EAS program is heavily oriented toward smaller commuter airlines. Replacement carriers should be reasonable comparable to the service that is being replaced.

Our fourth recommendation: The essential air service program should be amended to make it attractive to established carriers such as Frontier, Air Cal, or Republic West, at the largest—and I would like to stress the largest—EAS eligible points. San Joaquin County has detected a strong reluctance by such carriers to be obligated to provide service under the existing program. We recognize that Congress intended that the 406 program be phased out in favor of the more economical 419 program. However, medium size communities such as Stockton and Modesto fall somewhere in between. The CAB and its successor agency should make a concerted effort to identify the concerns of established carriers regarding the existing 419 program. Special efforts should then be made to remove carriers which discourage service to the large EAS eligible points.

Our fifth recommendation is that replacement-carrier proposals should be evaluated from a cost standpoint, based upon subsidy for revenue passenger rather than gross dollar amounts. The CAB tends to measure the success of the essential air service program based upon increased frequency of flights to a community. However, a more accurate measure of success is the number of passengers using a service. In our case, due to the ready availability of substitute air service, commuter airlines have been rejected. On the other hand, Pacific Express and Frontier are successfully developing a market. If more weight is given to the lowest subsidy program for new passengers, successful replacement service should result. To focus on gross dollar subsidies to commuters is a waste of funds and no progress toward subsidy-free service.

Our sixth recommendation is that the essential air service program should be converted from a minimum subsistence program to a developmental program for those markets reasonably expected to maintain subsidy-free service when the program expires in 1988 if not sooner. Under existing guidelines the CAB contends that any eligible point requiring more than 80 seats per day, or 62 in large aircraft which is the case in both Stockton and Modesto, will be served subsidy free, based upon motivations of free enterprise. This is clearly not the case, based upon our experience. Stockton in all markets currently offers 474 seats per day, and both EAS carriers receive subsidy. An arbitrary maximum limit of 80 seats per day does not begin to address the needs at this point. San Joaquin County concurs with the recommendation by the General Accounting Office that increased short-term subsidies be made available to points which could reasonably be developed to a self-sufficient point.

Our seventh recommendation is that the Airline Deregulation Act of 1978 be amended to specifically authorize the Civil Aeronautics Board or its successor agency to consolidate EAS determinations for various neighboring communities at the most central airport. San Joaquin County contends that it is unlikely that both Stockton and Modesto can support subsidy-free service at their local airports. Unless Congress acts sooner, as recommended by the General Accounting Office, we expect the EAS carriers at both airports to terminate service in 1988 when the program expires. Such an eventuality could be avoided if the CAB were authorized to pool the resources of Stockton and Modesto for conbined EAS service a one regional airport appropriately renamed. In addition, short-term development subsidies could repair damage caused by the previous CAB actions.

Finally, a regional airport would then be able to meet the long-term air service needs of the greater Stockton and Modesto area by being able to compete in the deregulated environment after subsidy programs expire.

That concludes our recommendation. By way of summary, San Joaquin County concurs with the recommendations by the General Accounting Office that the Civil Aeronautics Board be given additional flexibility to administer the essential air service program. However, in the case of Stockton and Modesto, rather than eliminate both communities from the program, due to our proximity to either hub the CAB should take action to consolidate two neighboring EAS eligible points for service from one regional airport that would have a reasonable chance of developing a subsidy-free service for the benefit of both communities and the Federal taxpayer. If such corrective action is not taken, we also agree with the conclusion by the General Accounting Office that communities such as Stockton and Modesto will find themselves without air service when subsidies terminate in 1988. Rather than wait for air service to collapse completely, constructive action should be taken now to build the foundation for adequate, long-term air service to serve 600,000-plus people within 45 minutes driving time to Metroport.

Thank you, Mr. Chairman, for the opportunity to present this testimony. I would be pleased to respond to any questions that you have.

Mr. MINETA. Thank you very much, Mr. Condrey.

When United was providing service, in some cases they charged the same rates between San Francisco or Los Angeles and the destination, say Denver or Chicago, as they did between some other communities in question today and the destination. This approach, for all intents and purposes, meant that the service between the small community and the hub was free if the passenger was traveling beyond.

Is it any surprise that there would be a loss in traffic if previously free service was made to cost something?

Mr. **Condrey**. No. That is not surprising at all, Mr. Chairman.

Mr. **Mineta**. The essential air service program is scheduled to terminate, as you mentioned, in October 1988, a little over 5 years away. Should this date be extended?

Mr. **Condrey**. I don't believe so, Mr. Chairman. Our community and the board of supervisors have indicated on many occasions that they are philosophically opposed to subsidy for a community the size of Stockton. And we do feel, however, that the CAB should provide these developmental subsidies to repair damage that has been caused in the past. But we are perfectly prepared to operate the airport in a deregulated environment and would have no desire to see the program extended beyond 1988.

Mr. **Mineta**. You've all heard here today that Pacific Express is willing to provide San Francisco-Stockton service with no increase in subsidy over what is now being paid to Inland Empire. If that were done, what impact do you think that would have on passenger traffic out of Stockton? Would such service have a reasonable chance of becoming subsidy free? Or, given your comments on page 7 of your testimony, should Stockton-San Francisco no longer be a designated EAS route?

Mr. **Condrey**. Well, we would be skeptical that that service would ever be provided subsidy free either by Pacific Express or any commuter.

If I might elaborate a little bit, the Stockton-San Francisco market is entirely different than the Stockton-Los Angeles market. We believe in the Stockton-San Francisco market, that what is needed is frequency—seven, eight, nine flights a day—to connect with other flights through that hub, whereas Los Angeles is a destination point that would just need well-timed, large, efficient aircraft there.

I don't see the San Francisco market being developed subsidy free for a couple of reasons. One, the nature of that market ever being served again would have to be by somebody such as United that would come back into the market without subsidy and would provide that free link to the rest of their system. I suppose, theoretically, you could have a model commuter that had a whole series of joint fares arranged with the connecting carriers, whereby the fare between Stockton and San Francisco is subsidized by the connecting carrier. Our experience has been that those carriers don't exist, and it's currently the case, I believe, the current fare is $45 from Stockton to San Francisco, and we find out this morning that that's a bargain, that it is 30 percent less than what it really should be.

Mr. **Mineta**. Would you say that, then, in the San Francisco-Stockton market you would rather be served by smaller aircraft providing good frequency rather than large jet service——

Mr. **Condrey**. No, not necessarily.

Mr. **Mineta** [continuing]. Providing less frequency?

Mr. **Condrey**. I would prefer to see somebody like United serve that market that could connect with a major system. I think that is what would be viable. I don't think it is going to be practical to subsidize large aircraft to provide that service with any frequency that would make it work. For that matter I don't think it is that practical to provide subsidies for the small aircraft to what would be necessary to make it work. As you know the Civil Aeronautics Board would only recognize two flights, two round trips, a day. From our way of thinking, it might as well be nothing if it is not going to be eight or nine flights a day, or a carrier such as United connecting to its system.

Mr. MINETA. Now, it has been suggested by the joint CAB-DOT study that there should be local sharing of the subsidy cost of providing essential air service such as a 10-percent match of the subsidy cost by the localities; although we did hear a variation on that today.

What would be your view of such a proposal?

Mr. CONDREY. It would have to be my personal view, because I haven't discussed this with the Board of Supervisors. But my personal feeling is that that is a good idea. I think that that would be a good means of separating those communities that really want air service from those that are willing to take 100 percent subsidy as long as it is available. And I think that that would apply a little more local pressure to make sure that the 10-percent match is as efficiently spent as possible.

Mr. MINETA. Well, Mr. Condrey, thank you very much. This will give us an opportunity to look at your report, and especially, as you say, to focus in on the last five items in the appendix. So, again, thank you very much for your testimony We appreciate it.

Mr. CONDREY. Thank you.

Mr. MINETA. I would now like to call on Mr. John Crowe from Visalia, on behalf of the city of Visalia, and the chamber of commerce.

TESTIMONY OF JOHN CROWE, CHAIRMAN, JOINT COMMITTEE ON AIR SERVICE, CITY OF VISALIA

Mr. CROWE. Thank you, Mr. Chairman. I am chairman of the joint committee on air service formed by the city of Visalia and by its chamber of commerce. We represent, I believe, a somewhat different viewpoint from the other communities who are here today. And I think it is necessary to put matters in perspective, to give you just a moment of the history of that viewpoint and how it was formed.

One year before deregulation, United Airlines, which had been our carrier for some 30 years, announced that it was reducing its frequency both to San Francisco and Los Angeles, from two daily flights in each direction to one. The chamber of commerce, with its some 1,200 members, reacted sharply to that and called for a meeting of frequent business users of air service, who met and asked United to meet with them. United did, and at that meeting we asked United to provide us with more service rather than less. And they were quite candid in telling us that they simply could not, with the type of aircraft that they had and with the type of service that they were providing.

We then began looking for a replacement carrier for United. That was in 1978. And we spoke to nearly every carrier on the west coast. Some of them wouldn't give us the time of day. And some of them were quite intrigued by the fact that a community wanted them in days when airports were in ill favor in some places, we got royal treatment in some; but, in any event, we spoke to nearly every carrier on the west coast and we learned, in the course of those conversations, that the economics of large jet service were simply not feasible for a community of our size, located the distance that we were from our two major hubs. The fuel burned in climbing to altitude without benefit of cruise, and the number of hot starts that reduced the maintenance time in the aircraft, and, among other things, United's pay scales and union rules made it prohibitive for them to come in. They then needed a 110-percent load factor out of Fresno in order to break even on those flights to San Francisco and Los Angeles.

What we learned as a result of all this was that what we really needed was a reduced size aircraft with a much larger frequency to provide the service that our community needed. We found that between two-thirds and three-quarters of all the passengers ticketed out of Visalia were actually boarding in Fresno, meaning a 50-mile drive in each direction, plus parking fares there and loss of time and money that was substantial. And, so, we began looking for a replacement carrier.

The problem that we faced then was that the California Public Utilities Commission had actively discouraged the development of commuter carriers to California for a number of years, and there literally was no commuter industry in this State. In 1979, when deregulation came along and most small communities were still reeling with shock with the thought that they might lose their subsidized large carriers, we were, to my knowledge, the only community that went back to CAB in Washington and asked them to please help us get rid of United and replace them with a commuter carrier who would give us what we needed. And what we asked, then, was to help us find one that was competent.

In that regard we had three criteria that we wanted or hoped to meet. One was that the airline would have sufficient equipment, the right type of equipment; and the second, that it have sufficient financial backing; and the third, that it had the management experience necessary to succeed in the market.

When the western regional office of the Civil Aeronautics Board was opened, we went to them and, I think, were their first customer, as something of a marriage broker to help us find an airline to meet our needs. We weren't able to meet all three of the criteria; that is, the adequate equipment, the financial backing, and the management experience, because there simply wasn't that kind of experience in the State of California at the time.

We were able to find what we thought was an airline that had ideal equipment for our market and financial backing, and that was Inland Empire. And, frankly, if we had to make that decision all over again today, only knowing then the facts as they were then, we would make the same decision entirely; because they were one of the best available at the time.

They began service to Visalia in November of 1979, three flights a day in each direction to both hubs. That was an exception to the general essential air service rule, and the board gave us an extra flight. And Inland was an immediate success in the market. The

1980 figures were higher than the combined total of the 1979 figures; and in 1979 United also had one other competitor, if you will, Swift Aire, who they succeeded in driving under. But Inland was a success without subsidy, because we had felt, and the airline had felt as well, that the market would support nonsubsidized service of the character that we sought and received.

The function of the Civil Aeronautics Board at that time, as I say, was helping us as a marriage broker, helping us to evaluate the airlines and helping the airlines to evaluate us. And we felt then, and feel now, that that was a very valuable service. The subsidy program which we chose not to take advantage of in 1979, we recognized to be valuable. We recognized it was essential, particularly for those communities being weaned from large jet service and to something other than large jet service, which did not have the mind set that we had to make it work. We think, fortunately, we did help to make it work.

Unfortunately, in 1981 a number of factors intervened that were beyond the control of the community or the airline and, perhaps, the Nation. The PATCO strike was but one. Fuel costs were another. The economy, generally, was a third. And these three together combined to have devastating effects on the airline industry, and, particularly, on the commuter airline industry in California which was in its fledgling stages. Those problems continued into 1982. Inland suffered from them as did other carriers. It suffered from other factors, and that is they had change of management. It is ultimately, now, in its third series of managements. And, as you know, in this last winter it filed under chapter 11, filed for protection under chapter 11.

We believe the reasons for that are not just the poor economy, the economy generally, and those things which affect the airline industry generally, but they were more specifically poor management on Inland's part and an absolute absence of any marketing skills or marketing abilities. They, unfortunately, literally rejected our efforts to assist them in that regard, and we think that was a major problem for them. And then, of course, their economic problems contributed to extremely poor reliability, which began to fall massively this winter.

Late this winter, after the economy began to climb out somewhat, as a result of those reliability problems and some really poor judgments made by management in terms of what flights to cancel and what not to cancel, they ultimately filed for chapter 11. At the time that they did so, they owed us about $85,000 in unpaid fuel bills. We still felt an obligation to the airline to help them make that work, and we continued to work with them in the hopes that under the protection of the chapter 11 action, they might be able to pull out.

Again, unfortunately, the service deteriorated even further, and by the early part of this summer they were canceling approximately 40 percent of their flights. We went to the Civil Aeronautics Board at that time and said, "Help, get them out. We want them replaced immediately." And when we asked the Board to give us assistance in expediting that change, the Board very graciously gave us exactly what we asked for in that regard.

We began looking and they began looking for a replacement carrier. We had a total of four airlines that submitted bids to provide essential air service for us. We spoke to all of those airlines, spent half a day or more with each one of them, analyzing our views of what they could do for us and what they could not. The Board, of course, provided us with a great deal of information and we exchanged what we had with them and made our recommendations to the Board. Those recommendations were heard and acted upon. We continued contacts during the rate conferences, and our supplemental comments thereafter were also heard and acted upon by the Board. I emphasize that because, quite frankly, we in Visalia have found the Civil Aeronautics Board to be one of the very most responsive Federal or State agencies with whom we have ever had to deal.

We now have a new carrier, as you know. We believe it to be financially sound. And, more importantly perhaps, we believe it to have a track record of success in other communities, which bodes well for us. And it has an extremely strong marketing arm. They've dedicated $50,000 as a minimum on marketing in the next year in our area, and we think that is precisely what it takes to get that airline off the ground.

They have a serious problem to overcome, in that Inland, because of its lack of reliability and its poor management practices, has taken annual traffic that at one time, when United had two flights each way in each direction, was 29,000 down to 7,000 at the moment. And we find, from our travel agents, that no one is riding on Inland, and we know that the airline had been getting essentially what traffic it got from direct contact from people who called in for reservations.

We're confident, however, that Wings West will succeed in its current market. It certainly has the community support. We're also confident that the subsidy that we now have will be short-term and not repeated. We, of course, did ask for, for the airline, a subsidy this time around, because there had been so much damage done to the community market by Inland that we felt it essential to have help in reestablishing that market. But we think there is every possibility that that will be a 1-year, or at the very most a 2-year, proposition.

We would like to give you a couple of observations as we see the future. Because the CAB has been so helpful to us and because the essential air service program is so essential to communities throughout the country and, in particular, to central California, we have these observations to make:

We supported deregulation 100 percent. We would support it even if it meant we wouldn't have air service in 1988, but we are absolutely confident that is not going to be the case. We think that unless there is air service which is economically feasible in a community it ought not to be there. But during the transition period, help is, of course, essential. There has been some thought in some quarters of even advancing earlier than 1988 the demise of the program. We think that would be a disaster to the public generally. We think the 10-year program set by Congress initially was most reasonable and it should not be changed at this time.

We think that the board should consider some of the things that it is not doing, for example, the experiment in subsidizing jet service, not for a community such as ours but for communities such as those where they have tried. Our community is not the size that would support it at this point; we are realistic in that regard. We think that consideration of things like subsidizing more frequent service than the minimum two might result in that seed money being far more productive than spreading it out over a longer period of time.

And perhaps, looking even further into the future, we have one other suggestion for your consideration, and that is we think that the life of the board perhaps should be extended beyond 1988, not for the purpose of subsidy or the essential air service program but for the function of providing service that we don't think is met any place else, and that is the board serves for us as a sounding board in an interchange of information concerning carriers and what they can and cannot do. And it serves the carriers as the sounding board of what communities can offer in the way of a market, and what kind of support they have, and what potential is there. We think, if for no other purpose, the board would be most valuable to the national interest in continuing to provide that function beyond 1988. We think, for example, that looking at rules and enacting rules in the area that they are now considering in the bias problem in the computer system is a function that could not easily be met, if met at all, by any other agency, and it will be a continuing need, certainly, beyond 1988. We are not confident that the FAA or any other division of the Department of Transportation, or any other agency that we know of, could provide the expertise of the Civil Aeronautics Board in the outstanding job it has done in the last few years; so, we would suggest that Congress at least look at the issue of who will continue those services beyond 1988, after the essential air service program has met its demise.

We would like, finally, to thank you for your continuing interest and attention to the air-traveling public and the Nation in general. And if there are any questions that I can answer on behalf of our community, I would be happy to do so.

Mr. MINETA. Thank you very much, Mr. Crowe.

Let me first ask about this $80,000 fuel bill. Who is left holding the bag on that?

Mr. CROWE. That would be the city of Visalia, because the city of Visalia operates its airport. So, all profits or losses, if you will, at that airport, are a community obligation.

Mr. MINETA. Is the city of Visalia acting as the FBO there?

Mr. CROWE. Yes, sir. That is correct.

Mr. MINETA. Wings West commenced service when?

Mr. CROWE. Last week.

Mr. MINETA. So, as far as any record on reliability, there is nothing, really, to attest to so far, except the confidence that you feel in the firm?

Mr. CROWE. Well, we don't have a track record in Visalia, but they certainly have a track record in other communities. And that is a matter that we investigated at great length before endorsing them in our community. Their track record elsewhere is quite good.

Mr. Mineta. Now, the GAO has suggested that the essential air service subsidy program may be more effective if the approach were to use the subsidy up front to develop or promote traffic rather than aimed at simply maintaining a level of service that might be prescribed. The idea would be if traffic developed because of the investment, then subsidy would no longer be needed; if traffic did not develop, the subsidy would be terminated and used someplace else.

Do you think such an approach would be one that would be attractive in Visalia and that you might recommend such a change in the program?

Mr. Crowe. Absolutely. We think that is an extremely valuable approach. It would have to be applied on a case-by-case basis, but if the board were to say to Visalia, for example, "Would you be interested in a larger subsidy for your carrier for a short period of time, in order to induce them to increase frequency now, recognizing that it would not continue beyond a year," I would gamble for that any day.

Mr. Mineta. What about if that subsidy were also to be used for making, or for the construction, of the gate space in that area, the ticketing area, would that be something that——

Mr. Crowe. Well, I think there may be some communities in which that would be very useful. I don't think we would need it for that, at least in Visalia. If you are speaking of aid in facilities in Los Angeles or San Francisco, possibly, but I don't think we need that in Visalia. I think we can fund that locally.

Mr. Mineta. You said the minimum service requirements are too low. What do you think would be more appropriate for Visalia?

Mr. Crowe. I think for Visalia it would be three each way on week days; which was what we initially had, although without subsidy, in 1979. I think the community can support, with the type aircraft we are flying right now—that wings West is flying and Inland was—with good service, I think we could ultimately support five or more without subsidy. But I think that three would be an appropriate figure today, as the new airline gets off the ground.

Mr. Mineta. A Swearingen has how many seats?

Mr. Crowe. Nineteen, or sometimes 17, depending on the configuration in a particular aircraft.

Mr. Mineta. The Wings West also has a C–99. What is the seat capacity on the Beechcraft?

Mr. Crowe. The C–99 is a smaller aircraft. It is not as desirable an aircraft as the Metro. I have some serious reservations, as does the airline, as to whether the C–99 could be an adequate aircraft in our market.

Mr. Mineta. You are looking at frequency of service and reliability?

Mr. Crowe. Yes, sir.

Mr. Mineta. Well, Mr. Crowe, thank you again for taking the time and traveling all the way up here to Modesto for your presentation. It has been very helpful, and I would like to thank you for your part and role in Visalia and what you are doing. Thank you very much.

Mr. Crowe. Thank you.

Mr. MINETA. Now I would like to call on Mr. Ralph Tonseth, director of airports for the city of Fresno, on behalf of the California Association of Airport Executives.

TESTIMONY OF RALPH TONSETH, DIRECTOR OF AIRPORTS, CITY OF FRESNO, ON BEHALF OF THE CALIFORNIA ASSOCIATION OF AIRPORT EXECUTIVES

Mr. TONSETH. Thank you, Mr. Chairman. My appearance is, today, on behalf of the airport executives, which is an organization, as you know, which represents the interests of more than 200 professionals engaged in the management of commercial and general aviation airports in the State of California. I wish to express today to the subcommittee the concerns of our membership about the problems of the essential air service program in the Central Valley, and to offer suggestions we feel would improve the effectiveness of the program once the CAB sunsets in January 1985 or possibly sooner.

We believe that since its inception in 1978, the EAS program has fallen short of its guaranteed goal of providing lifeline commercial air service from small valley cities to the communities of interest and to the national air transportation system. The number of passengers using scheduled air service in EAS communities has decreased drastically since the program began, and unless circumstances change, many of these cities will lose all their service when the program ends in 1988.

A major reason for this shortfall appears to be inability of the CAB to revoke and reissue in a timely manner EAS authority and subsidy from one airline to another, despite operational audits which clearly show the carrier's inability to perform. It has been our experience that the CAB will stay with the carrier in an EAS market until the bitter end.

The prolonged and agonizing failures of carriers found by the CAB to be fit and able have created enormous hardships upon EAS airports in the communities they serve. Much of this trauma could have been avoided by timely replacement of obviously failing carriers. Names like Air Pacific, Golden Gate, Swift Aire, and Inland Empire are not easily forgotten in valley communities where the local economy has been destabilized by the loss of confidence in its scheduled air service.

The chief result of the EAS program in the central valley thus far has been to turn previously regulated and stable markets into air-service basket cases which would take a great many years to repair. We don't believe this is what Congress intended for the EAS program under the Deregulation Act.

To improve the situation, we believe that when the CAB sunsets in January of 1985, the EAS program should be transferred to an EAS Executive Committee within the Department of Transportation. This committee should function autonomously and have as its only charge responsibility of making the EAS program work as Congress intended. Staffing for this committee could come from qualified persons now employed by the CAB.

Some of the guidelines we would suggest the committee establish include:

First, strengthening of the "fit and able" criteria of potential EAS carriers to better insure their ability to compete in a highly competitive deregulated environment, recalling that providing consistent, reliable air service is the most important aspect of the EAS program.

Second, to establish a continuous monitoring program to review the financial and operational performance of designated EAS carriers.

Third, establish a process, without lengthy administrative procedures, to revoke and reassign EAS authority and subsidies when previously authorized carriers fall below established criteria.

Fourth, obtain authority to reallocate, when necessary, slot positions and fuel allocations from one EAS designated carrier to another.

Fifth, establish special rules for dealing with EAS carriers in chapter 11 bankruptcies, including maximum 120-day provisions for reorganization, and if necessary, procedures for direct payment of EAS subsidy moneys to airports to cover unpaid airline indebtedness.

Sixth and lastly, creation of a special air service developmental fund, or at the option of the EAS city, provision for direct payment of subsidy money to local communities to allow the purchase of airline service of their choice if they are not satisfied with their designated EAS carrier.

The California Association of Airport Executives appreciates the opportunity to participate in these hearings and is available at any time to assist this subcommittee in its efforts.

Thank you very much.

Mr. MINETA. Thank you very much, Mr. Tonseth.

Let me ask about this issue of timely response without lengthy administrative process. Isn't part of the problem there being that the CAB doesn't want to be responsible for the demise of some struggling carrier trying to make it. So you sort of want to give them as much running room, as much rope, as possible to, quote, "try and make it." If they were to pull the plug too early, even though that may be to the disadvantage of the community, should the cab be in the position of being responsible for some airline going under?

Mr. TONSETH. Chairman Mineta, it is the feeling of our membership that commuter airlines, particularly in the central valley, are of, generally, two types: One is the airlines that are run by airline people for airline purposes, and second, are airlines run by investment people for investment purposes, and that a large part of the reason a lot of people get into the airline business is not necessarily to run airlines, it's to arbitrage their money and to take tax advantages—leasing, et cetera, et cetera—and that resulting air service, in some cases, may be a byproduct of the whole operation; which relates back to our first point. We believe that criteria for "fit and able" should be substantially strengthened to weed out those people that are not interested in protecting the public interest in this regard. If they are only interested in providing tax shelters for their various holding companies, we believe that may be a black mark against them in the first place. Therefore, if a carrier is found to be wanting and not meeting the criteria, then I have no problem with the CAB pulling the plug on that carrier at the earliest opportunity.

Mr. MINETA. The CAB is required to consult with the communities on essential air service carrier designations. How has the CAB performed on this account aside from the fact that they may have made decisions not to your liking or in a timely manner?

Mr. TONSETH. Well, personally, I could be neutral, personally, in this, since I'm not in an EAS carrier airport; although most of them do serve my facility. It is the impression that I get from my members that in most cases they don't believe that the interests of the community have had enough weight in the final decisions being made, that if the communities had their way, that certain other choices or programs would have been preferable, either in terms of taking the subsidy money and buying their own air service, jet service if you will, or in using that money to advertise air service, or to cut their own deal with potential air carriers. Most of them feel that, on balance, they probably would have had a better shot at it.

Mr. MINETA. The CAB will sunset or go out of existence in 1 year and 4 months; namely, January 1985. I expect that at that time the administration of the essential air service program will be transferred to the Department of Transportation for the remainder of the program's life. Do you have any thoughts on this transfer?

The reason I ask this is that a number of other functions, such as international air-route awards, will be also transferred to DOT. And I have expressed serious concerns that these functions should be somewhat insulated from political considerations.

Do you have a concern that the EAS program could become too politicized in the designation of carriers and determination of subsidy, unless there is a type of insulation that presently exists with an independent agency such as the CAB?

Mr. TONSETH. Yes; we do have that concern. That was the basis of our suggestion that the EAS function be transferred to what we called an executive committee within DOT. The proviso was that the executive committee would function autonomously. We do have those concerns, yes. But we don't see any other agency that, frankly, is set up to handle the problem. We do believe EAS probably should have a separate committee by itself to monitor that program. And we don't believe that they would have any problem getting people from existing CAB staff to function as staff for that committee.

Mr. MINETA. OK, thank you very much, Mr. Tonseth.

Mr. TONSETH. Thank you.

Mr. MINETA. Now I would like to call on Mr. Stephen P. Schmitt, aviation director, Kern County, Calif.

TESTIMONY OF STEPHEN P. SCHMITT, AVIATION DIRECTOR, KERN COUNTY, CALIF., DEPARTMENT OF AIRPORTS

Mr. SCHMITT. We do want to thank the Subcommittee on Aviation for allowing us to appear before the committee today to discuss the essential air service program involving Bakersfield. However, I don't think we're going to say anything more than what has been said here before. But I shall continue.

Bakersfield is one of the most dynamic communities in the United States due to its basic industries of agriculture and oil production. Kern County, of which Bakersfield is its principal city, is the third largest agricultural county in the United States, and if Kern County was a State, it would be the fourth largest oil-producing State in the Nation, surpassing such other noted oil producers as the State of Oklahoma. This activity in the last 10 years has increased, or helped increase, Bakersfield's city population from 60,000 to over 105,000 with a greater Bakersfield community encompassing a population of 225,000. And Bakersfield currently is the 12th fastest growing city in our country.

Now, with this kind of act you might even think that because of the above conditions it would be expected that Bakersfield would have a corresponding growth in air transportation, but such is not the fact. Through 1978, Bakersfield air traffic was growing at a rate of approximately 12 percent per year, and in the year 1978, we boarded 148,000 passengers at our airline terminal, Meadows Field. At that time, we were principally served by United Airlines and Hughes Airwest, both providing jet service. United provided service to Los Angeles and San Francisco, and Hughes Airwest principally provided service to Las Vegas. We also had a small commuter at the time providing service to Sacramento. As I said, 1978 showed a total boardings of 148,000 passengers. Our master plan predicted that by 1983, we could expect more than 200,000 passenger boardings per year. However, our master plan never foresaw or predicted that there would be such a thing as airline deregulation along with its requirements for essential air service.

Now, what has been the results since airline deregulation?

We have found that we have lost our two principal carriers, United and Hughes Airwest, to be replaced by a total of 13 other carriers, of which 7 went bankrupt, 1 pulled out and with 5 currently in the market. The results have been that in 1979 and 1980, our boardings drastically dropped to 95,000 each year, 1981 saw a further slide to 61,000, and in 1982, a further deterioration down to 49,000 passengers, nearly 100,000 less than what occurred 4 years before in 1978.

Now we ask what caused this deterioration. Well, we must reflect back to 1977, in this very same city. We had the opportunity to speak before the Aviation Subcommittee when it was investigating the pros and cons of proposed airline deregulation. At that time, we pointed out that the major hubs such as Los Angeles and San Francisco had no need to worry because of what would be an overwhelming desire for airlines to service those communities. In other words, they had their own self-protection. On the other end of the scale were extremely small cities such as Inyokern or Yuba. They would be protected by the Deregulation Act with essential air service guaranteeing a sufficient amount of seats for service to those cities.

We expressed our concern for the cities in the middle of the scale, such as Bakersfield, Modesto, and Stockton. We advised that the major carriers, because of lessor profit availability—and we say lessor profit availability as United Airlines did make money in Bakersfield but not to the extent as a major hub—and because there were no protection guarantees such as extended to the very small communities, we would be in purgatory and that eventually cities of our size would have a very good chance of going to hell. And, incidentally, we did eventually get there when, in September 1981, we went without service for 2 weeks in our two principal markets, Los Angeles and San Francisco, as the two airlines serving them went bankrupt.

Shortly after the Airline Deregulation Act came into effect, we had the opportunity to attend the CAB workshop meeting in Phoenix, Ariz. Once again, we expressed our same concerns as at the Modesto meeting. We further stated that our replacement carriers should not be a "bucket of bolts" type of operation. It was interesting to note this was the first time the CAB had an expression of this type of concern as their previous meetings were all involved with the very small cities and the necessity of protection guarantees. It is our belief that neither the CAB, Congress, nor the so-called "experts" ever thought that cities the size of Bakersfield would become involved with and have a need for essential air service guarantees. However, we did, as through our trauma we have had a total of nine airlines be designated as essential air service carriers. Of that nine, six either went bankrupt or pulled out of the market. At one point, one was even given subsidy to the amount of approximately $250,000 in 1 year; however, that carrier eventually went bankrupt this last spring.

Why did these carriers not succeed in Bakersfield?

It was principally their own fault, because they were found to be exactly what they would not be, a "bucket of bolts" carriers. They were not dependable, they were not professional, and in our opinion, they were neither fit nor able. The public reacted accordingly, which is evident in our pitiful boardings for the years 1979 through 1982.

Now comes 1983, which shows a second round of carriers in the Bakersfield market, none of which were here 4 years ago. In fact, four of the five carriers are new carriers this year. The carriers that are now here are a new breed and they do exhibit professionalism and dependability; however, they are penalized because they are still living under the trauma caused by the previous carriers. Boardings this year are up 50 percent over last year, but that is still a far cry from the boardings that we experienced in 1978 and what we should be doing for such a dynamic community that Bakersfield is. We do not know whether all five of these carriers will succeed in the Bakersfield market, and we don't know if we will ever be able "to put Humpty Dumpty back together again." However, we do know that essential air service has been a dismal failure in Bakersfield as it was never designed for communities such as ours. We do not know the solution to essential air service other than to say that for our community it never was and never will be practical under any set of rules or regulations that we can foresee. We feel that the only thing left to do is let deregulation take its course unfettered. Hopefully, as the major carriers go more into the hub-and-spoke concept, this concept will, in turn, pay off for Bakersfield, and hopefully, sometime in the future, air transportation will successfully serve our community to its fullest extent, with the result being again, in turn, economically beneficial to those airlines serving our community. The market is there if the airlines can find the key to it.

Mr. MINETA. Thank you very much, Mr. Schmitt.

Let me ask—you say that your enplanements have dropped as a result of deregulation, that Bakersfield has suffered as a result of deregulation, and so on. I'm having a hard time seeing how dereguation was the cause of all of those difficulties. Before the Deregulation Act, carriers could pull out of the communities anytime they wanted, and they often did. The community had no protection whatsoever. Now, in your case it happened that many of the service abandonments happened after the Deregulation Act, but at least then you had the essential air service guarantee and subsidy program.

Is this really a case of deregulation being the cause of your troubles or is it more a case of deregulation and service problems in Bakersfield happening about the same time by coincidence? Or, put another way, how would things have been different for Bakersfield if the Deregulation Act had never passed and United had decided to pull out in any event?

Mr. SCHMITT. I don't think United Airlines would have pulled out in a regulated climate. They had maintained that they did make money in Bakersfield, and Bakersfield was a growing market for them. The problem was that when deregulation came along, that many of these major carriers thought other pastures were going to be greener; that United, for example, thought they could go some other place and make more money than what they could in the Bakersfield market.

When United was going to leave we were then given an Essential Air Service carrier, called at that time Air Pacific. Air Pacific, at that time, was a paper airline. They had people—the owner of it had no experience in the airline business. The head operational person had no airline experience. They were going to come to Bakersfield with a nice airplane, the Dash-7, a 50-passenger airplane; once you got inside it looked just as roomy as the Boeing 737. The problem was that the public was used to flying the Boeing 737. Air Pacific could not come in on June 1, 1979, because they did not have the airplane certified. One month later they did. They came in, I believe, on July 2, with that Dash-7. The public liked it when it saw it. However, the next day they showed up on the ramp with a 17-passenger Twin Otter. You must remember, 2 days before the public was used to riding a 105-passenger 737. We literally had people that went out to the terminal, looked at that Twin Otter, looked inside, turned around and walked out and have never been back in the airport since.

And that was the start of it. The reliability of these different essential air service carriers was pitiful. We were getting many months when we would have a completion factor combined for them of many 86, 87 percent. When the Uniteds were there, the completion factor averaged 97 percent per year. Now we have had such carriers as Pacific Express and Continental that have not had a cancellation in the last 4 months, except for Continental which went on strike last Saturday, and their own time records have been tremendous. But because of all this other stuff that has been going on in between, they are now having a very difficult time to try to get that market back. As I said, we know the market is there, but how we're going to get it back yet, I don't know. Fare structures have been a problem. The people were used to the idea of being able to ride free on United Airlines to Los Angeles to connect on another United flight, say, going to New York. Today you can fly, maybe, at $45 to Los Angeles, and you can connect on some other flight, on some airline, going to New York, and combined fares may be cheaper than what the United fare was back in 1978; but the public still has it in their mind, "I have got to fly, I have got to pay to go from here to Los Angeles."

We have Airport Bus which came into the market when we started to have our problems, so the airlines have to compete against that. Where they have a fare of $23, we have had, from time to time, add-on fares of $12. And that has started to bring the market back. But now it appears that the airlines want to get out of that. So, we do have the fare problem in there.

We have lost the discretionary traveler in Bakersfield. Our growth is coming from the businessman coming into Bakersfield from some other place and the businessman going out. But the discretionary traveler, the mom, pop, and kids that are going on vacation, we are not serving out of Bakersfield anymore.

Mr. MINETA. What are they doing? What's happening? Are they driving to LA.?

Mr. SCHMITT. They're either driving to LA or taking the airport bus to LA to make a connection.

Mr. MINETA. What about the recent announcement by United Airlines? Does this portend a return by United to Bakersfield?

Mr. SCHMITT. We have no idea. We have not been contacted by United Airlines. I think if United Airlines did come back to Bakersfield, it certainly would stimulate the market, as in the case of Continental. When Continental announced they were coming into Bakersfield, it was like God coming down to Earth. The public was so pleased. And even though Continental may be a shell of itself compared to what it was under the operation of Bob Six, they have that image and people immediately started flying Continental. And they have had the most success on the one flight a day that they have had out of Bakersfield to Houston than any other airline in town.

Mr. MINETA. What time does that arrive. Is that arrival and departure?

Mr. SCHMITT. They have one flight a day that leaves at roughly 7 in the morning and goes to Las Vegas and Houston and then returns in the evening. It leaves Houston at 5. Let me say 7 something Houston time and arrives in Bakersfield around 10 o'clock at night.

Our major city outside of California is Houston, because of the agricultural and oil interest; but the public is also finding that by taking Continental to Houston, they are finding an alternate to connecting in Los Angeles. You can go to Houston and make very good connections out of there, also, over to Las Vegas.

Mr. MINETA. Does that equipment come in and then lay over night?

Mr. SCHMITT. That is correct.

Mr. MINETA. And then, at 7 o'clock in the morning.

Mr. SCHMITT. That is correct. And that is with a DC-9, a 108-passenger airplane.

Mr. MINETA. All right.

Any other questions?

Well, Mr. Schmitt, thank you again very much for your recitation.

Obviously, from what all of you have heard who have been patiently sitting through this whole hearing, you recognize that we have a lot more work to do on the issues that have been discussed here today. And as I indicated earlier, we will be having further hearings in Washington this Fall.

There are a lot of tough tradeoffs in the essential air service program, but I think that one key point that is already crystal clear to me is that whether you pay a little or whether you pay a lot, whether you get large aircraft or small aircraft, you've got nothing for your money unless you've got reliability. And from what we have heard, and from what I have experienced here today, that reliability simply does not exist in the Modesto-San Francisco and Stockton-San Francisco markets. I am particularly struck by the fact that a carrier that does have a good community reputation for reliability and enjoys high confidence level in the travel market is willing to provide the service at no increased subsidy. I think that is something the Board should look at very closely and should look at with the understanding, again, that without reliability you really don't have anything.

We appreciate the hospitality all of you have shown and the high quality of testimony that we have heard here today. It's been very helpful for the subcommittee. Again, I would like to thank all of those who have been helpful to us during these hearings and especially to the city of Modesto for making the arrangements here today.

Without any further business the subcommittee will stand adjourned.

[Whereupon, at 2:30 p.m., the subcommittee adjourned.]

REVIEW OF AIRLINE DEREGULATION AND SUNSET OF THE CIVIL AERONAUTICS BOARD

(Essential Air Service Program and Small Community Air Service)

TUESDAY, JANUARY 31, 1984

House of Representatives,
Subcommittee on Aviation,
Committee on Public Works and Transportation,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 2253, Rayburn House Office Building, Hon. Norman Y. Mineta (chairman of the subcommittee) presiding.

Mr. Mineta. The Subcommittee on Aviation will please come to order.

Today we are resuming our hearings on the essential air service, or EAS, program and small community air service. The first session of this hearing was held in Modesto, Calif., on August 16, 1983. That field hearing gave us a closeup view of the EAS program in central California, an area in which the program has had difficulties. The Washington sessions of the hearings, today and tomorrow, will consider the program as a whole and whether any modification is needed in the legislation governing the program.

The essential air service program was established in the Airline Deregulation Act of 1978. Before the Deregulation Act, the CAB had authority to authorize airlines to terminate or suspend their service at small cities if CAB concluded that the cost of service to a city outweighed the benefits. CAB exercised this authority freely and authorized certified air carriers to terminate or suspend service at 179 cities between 1960 and 1979. Although some of the cities obtained replacement service by a commuter airline, most did not.

When the Deregulation Act was passed, there was concern that competitive pressures would cause the certificated airlines to accelerate their efforts to terminate their service at small cities. To insure that small cities would not be required to bear an unfair share of the costs of deregulation, the 1978 act provided a guarantee to all cities listed on air carrier certificates that they would continue to receive essential air service for 10 years.

To make the service feasible, section 419 of the act established a new subsidy program, with compensation to be based on the service needs of the community and the use of aircraft appropriate to the size of the market. Under the prior subsidy program, section 406, subsidy was based on the needs of subsidized local service carriers, which operated jets and large turboprop aircraft. This subsidy, known as 406 subsidy, was phased out at the end of fiscal year 1983.

During the 6 years the essential air service program has been in effect, all eligible cities have continued to receive air service. By contrast, many cities of comparable size which are not covered by the EAS program because they did not have certificated service in 1978, have lost their air service entirely since 1978.

In administering the EAS program, CAB operates under a number of constraints. First, CAB is required to continue service to all cities, even cities which would have been deleted under prior law because they are within a short drive of other airports and require a large amount of subsidy per passenger.

Another constraint is that CAB can only work with those commuters which want to serve a city. CAB has no power to order an unwilling commuter to provide service. While in a large number of cases the commuters selected by CAB have been reasonably stable and reliable, there have been situations in which CAB has had to rely on a less-than-optimal carrier.

A final constraint under which CAB has operated is that it faces a sometimes irreconcilable conflict between the interests of communities which would like more service with better aircraft, and the interests of the general taxpayer that the subsidy costs of the program to be held within reasonable bounds.

Given all these conflicting pressures, CAB's task has not been an easy one. These hearings will give us an opportunity to evaluate all aspects of the EAS program, including the levels of service which have been provided, the quality of the service and the costs of the program to the general taxpayer. We will also consider whether any legislative changes should be made in the program, effective either at this time or when the authorization for the program terminates in 1988.

A number of changes have been suggested. The General Accounting Office and others have suggested that the program would be more effective if CAB had flexibility to offer additional subsidy to a city on a promotional basis, with the understanding that if the promotional program did not work out, the city would not claim further subsidy.

There have also been suggestions for a reevaluation of the cities included in the program with some weeding out of cities which are within easy driving time of hub airports and which require relatively large amounts of subsidy. Another issue is whether State or local governments should be required to provide matching funds for Federal subsidy grants.

We also need to consider whether any legislation is needed to insure that when DOT takes over the program after sunset, it will be administered efficiently and that DOT's decisions will be based on considerations of aviation policy rather than on political considerations. This issue will be considered in a broader context in our next hearing on the insulation of DOT decisionmaking from political pressures after CAB is sunset 11 months from now.

I recognize a very fine colleague, the gentleman from Arkansas, Mr. Hammerschmidt, at this time.

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

As you stated in your rather comprehensive opening statement, our hearings today and tomorrow will afford this subcommittee an opportunity to examine the progress of the essential air service program, which has now been in existence for 5 years and is scheduled for termination on October 24, 1988.

As my colleagues are aware, the EAS program was included in the 1978 Airline Deregulation Act to guarantee that small communities did not lose access to the Nation's air transportation system during the transition period from a regulated to a deregulated industry.

Undoubtedly, the EAS program has been helpful to many communities in assuring the continuation of essential air service. However, because the effects of deregulation have not been the same everywhere, other communities have seen a marked decline in both the quantity and quality of available air service.

While there are many factors involved in the potential success or failure of air service in any particular community, I think it is important to us to determine whether or not any fundamental changes should be made in the statute before the EAS program transfers to DOT at the end of this year.

The GAO, in fact, has already recommended that the Congress consider changing the EAS program to allow CAB greater flexibility to increase or decrease subsidies to selected communities. They have suggested that if an increase in subsidy would result in developing a community's air service market to the point where no subsidy would be required after 1988, then perhaps a short-term increase in such payments would be desirable.

On the other hand, if there are small communities which would not be able to achieve self-sufficiency or which are close enough to larger airports which offer better air service, GAO believes that we should consider discontinuing subsidies to those communities.

Mr. Chairman, these issues and others need to be examined during the course of these hearings so that we can make a determination as to whether or not the essential air service program has encouraged and fostered the continuation of safe and reliable scheduled air transportation in our small communities. If it is in the public interest to make adjustments in the existing program, then I believe they should be made prior to CAB sunset at the end of the year.

Consequently, I look forward to these hearings and join the Chairman in welcoming our witnesses, who have taken the time to assist us in these deliberations, particularly the Chairman of the CAB, Dan McKinnon.

Mr. Chairman, I would ask at this point that we be allowed to include Mr. Snyder's statement in the record.

Mr. MINETA. Without objection, it is so ordered.

[The statement of Mr. Snyder follows:]

STATEMENT OF HON. GENE SNYDER

Mr. Chairman: As you indicated, today's hearing will focus on the essential air service [EAS] program, which was established in 1978 as part of the Airline Deregulation Act [ADA] to assist small communities in maintaining vital air service.

As many of my colleagues are aware, before the ADA was enacted airlines were permitted to terminate air service at any community and, in fact, some 137 cities lost all certificated air service in the 10 years prior to 1978. Therefore, when Congress passed the ADA, it determined that small communities should be afforded a guarantee of air service to preserve their access to the Nation's air transportation system while the country was transitioning to a fully deregulated environment. Accordingly, the EAS program was established and eligible small communities were thereby assured of air service, subsidized if necessary, for a period of 10 years.

As we had anticipated, commuter carriers began to replace many of the larger airlines in our smaller communities. Unlike their predecessors, which often operated jet or large turboprop aircraft, the commuters operate smaller aircraft with more frequent departures. And while many cities were understandably upset at losing service by the larger airlines, it became clear that the smaller aircraft were better suited to these lower density markets.

As the EAS program matured, it gradually replaced the old section 406 subsidy program which had been geared more to the needs of the airlines which participated in it rather than to the communities which they served. In addition, because the section 406 subsidies were generally much higher, the phaseout of that program has already saved millions of taxpayer dollars.

Notwithstanding the positive aspects of the section 419 subsidy program, there have also been problems in some of our smaller communities. We have seen the bankruptcies of some commuters involved in the EAS program as well as substantial declines in traffic at many locations. Moreover, a recent GAO report recommended that the Congress should consider changing the program to increase the likelihood that more cities will be able to support their own air service without Federal subsidy.

Most observers would agree that the section 419 essential air service program was and continues to be one of the more important provisions of the Airline Deregulation Act of 1978. Now that we are halfway through the 10-year period during which this program was authorized, I believe it is very important that the Congress conduct a thorough review to determine whether any midcourse corrections are warranted at this particular time.

Accordingly, Mr. Chairman, I welcome our witnesses today and look forward to reviewing their testimony on these important issues.

Mr. MINETA. Mr. Valentine, do you have any comments?

Mr. VALENTINE. I have no comments, Mr. Chairman. Thank you.

Mr. MINETA. Mr. Anderson?

Mr. ANDERSON. No comments.

Mr. MINETA. If not, let me welcome the Honorable Dan McKinnon, Chairman of the Civil Aeronautics Board.

Dan, it is always good to have you appear before us.

The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF HON. DAN MCKINNON, CHAIRMAN, CIVIL AERONAUTICS BOARD

TESTIMONY

Thank you for this opportunity to present the views of the Civil Aeronautics Board on the Essential Air Services Program.

I believe it is fair to say that nationwide the EAS Program has worked well.

OVERALL RESULTS

The accomplishments of the EAS Program fall into three broad categories.

First, in the more than five years since the Airline Deregulation Act was passed, not one of the more than 700 communities that were guaranteed essential air service has lost all air service.

Second, the EAS program has reduced the amount of subsidy required to support air service by one-third or $25 million.

Third, the EAS program has allowed carriers to restructure their route systems quickly and efficiently.

As you know, one of the reasons for including the EAS provisions in the Deregulation Act was to ensure that small communities would not lose air service as a result of the airlines' new freedom.

In the 10 years prior to the passage of the Deregulation Act, 137 small communities throughout the country had been deleted from the certificated air service map.

Some of the 137 communities were able to obtain commuter service, but most lost all their air service.

Congress was concerned that deregulation would increase this steady stream of lost air service.

Not only were small communities losing scheduled air service, but it became obvious that the old subsidy program under section 406 was not working.

Despite the cessation of service at many points and the decline in quality of service at many other points, the subsidy bill kept growing.

The reasons were two: the local service carriers, the major beneficiaries of the section 406 program, were subsidized on the basis of their overall financial needs; and many communities included in this program generated sufficient traffic to support unsubsidized service.

The Essential Air Service Program has reversed the trend of increasing subsidy expenditures and has halted the steady loss of air service to certificated communities.

The continuation of service at all essential service points contrasts sharply to what has happened with small communities outside of the essential air service program.

These communities were not listed on any carrier certificates but were served by commuter carriers when the Deregulation Act passed and were, therefore, never guaranteed service under the new program.

Over half of these communities, or 84 of 162, lost their air service between 1978 and 1983.

Further, from June 1978 to June 1983, EAS communities experienced a 5 percent increase in aircraft departures while the non-EAS communities still receiving service suffered a 36 percent decrease.

The number of communities requiring subsidy support has also declined to nearly one half of the number receiving taxpayer support under section 406 when the Deregulation Act was passed.

In 1978, 202 points in the lower 48 states were subsidized. Now that all remnants of the old subsidy program have ended, the number is 104.

Total subsidy in the lower 48 states amounted to $71.7 million in 1978, and is expected to be about $40 million in fiscal 1984.

Up until 1981 there were 190 points in Alaska which continued to receive subsidized service under section 406.

The transition to the 419 program did not begin in Alaska until 1982.

With the transition now almost completed, the number of points requiring subsidy support has been reduced to approximately 50. Alaskan subsidy in 1981 amounted to about $9.5 million, while today we estimate Alaskan subsidy at about $5.5 million annually.

These statistics show some of the more obvious benefits of the program. Less obvious is the substantial contribution to the efficient restructuring of the airline industry.

Since the Board no longer routinely subsidizes carriers to fly jets or large prop aircraft into small communities where there is little traffic, large carriers have been able to withdraw those aircraft and use them to provide improved and expanded services in major markets. The void generally has been filled by commuter carriers operating aircraft of 60 seats or less.

From the standpoint of economic efficiency, the better matching of seats to passengers makes sense.

The major carriers are better off and the commuters continue their healthy growth.

It is important to remember that the change from large- and medium-sized aircraft at many communities was fully warranted on the basis of existing traffic. Of the 327 communities that currently have an EAS definition in the lower 48 states, 34 averaged fewer than 10 passenger boardings per day in 1978, and 93 averaged fewer than 30 enplanements daily.

There has been a change in the carriers providing air service at 198 of the eligible communities. Of these 198 points, 148 have experienced only one carrier transition. Only 50 communities have experienced more than one carrier transition since deregulation. This demonstrates a stable pattern of replacement service.

There has also been an improvement in the way small communities are served.

EAS communities now receive more service to large and medium hub airports and less to small hub and nonhub points. At these larger airports passengers can make connections to a wide variety of destinations and have an array of price options available.

EAS communities served by small carriers enjoyed a 21 percent increase in the frequency of nonstop flights to large and medium hub airports from June 1978 to June 1983.

Overall, on a national basis, I think the section 419 Essential Air Service Program has been a great success in meeting its primary objective of maintaining air service at small communities in an efficient way.

Not only are the overall objectives of the program being met but the communities involved appear generally satisfied with the way the program is working.

This is in no small measure a tribute to the talented and dedicated people we have working on the program at the CAB. They are nothing short of sensational.

Our Office of Congressional, Community and Consumer Affairs recently completed a telephone survey of local officials at all of the EAS communities in the 48 states. We have also received the views of the Alaska Transportation Commission which has surveyed Alaskan communities.

The surveys found that the program is considered to be run fairly and has resulted in good reliable service as intended by Congress. I think these surveys serve as convincing proof that the program is working. I have attached to my written testimony a copy of the survey results.

SERVICE AND TRAFFIC RESULTS

Although we are pleased with the effectiveness of the program, traffic results at essential air service communities have not all been positive.

As hoped, the essential service program has resulted in higher flight frequency and a better matching of aircraft capacity to demand. Comparing December 1983 and December 1978, we see that aircraft departures at EAS points rose 10.9 percent while seats declined 10.1 percent, as commuters replaced carriers that operated jets or larger props in many market.

Nevertheless, traffic has declined at most EAS communities since 1978, including those that have continued to receive service from a certificated carrier.

However, 1978 was a banner year for the airline industry, and a comparison to 1976 traffic levels is more meaningful.

From 1976 to 1982, traffic increased at 25 percent of the EAS communities and declined at 75 percent.

However, we do not expect this decline to persist since we already are seeing posititive indications as the economy strengthens.

Much of the traffic declines at the EAS points occurred during the 1980-82 period when the entire airline industry suffered, not just small community air service.

Many of the forces causing certain small communities to lose traffic are beyond the control of the program, such as the economic recession and the effects of the PATCO work stoppage.

The recession affected the level of demand for air travel and the financial stability of the airline industry.

In addition to depressed traffic, commuters encountered high interest rates at the very time they were trying to fill the gaps left by existing certificated carriers.

Despite these problems, many excellent commuter carriers are now providing replacement service.

The PATCO strike and its aftermath restricted the number of flights carriers offer as well as the timing of departures.

The PATCO disruption had a disproportionately severe impact on the commuter carrier group which had been the most rapidly growing segment within the industry. Most importantly, it reduced the availability of convenient connections.

In addition to these external factors, the airline industry underwent two major changes that have altered travel patterns and contributed to the decline in traffic at certain communities throughout the nation and the improvement in service at others.

First, deregulation has led to better service and substantially lower fares in many major markets.

This added competition in major markets has produced some of the best travel bargins ever seen.

These benefits flow to everyone who can go to a hub airport, and people have been driving longer distances to take advantage of these bargains. This is a positive development for residents of small- and medium-sized communities, but it serves to draw them away from using their own airports and reduces traffic at local facilities.

Second, as a related matter, competition and the lowering of fares in major markets have eliminated the cross-subsidization of small points and short-haul routes.

Before deregulation, major carriers could support thinner routes with profits from major long-haul routes. The CAB's mandatory fare formula encouraged this.

Today, every route must bear its own costs.

This causes fares at small points to increase and reinforces the tendency of travelers to take surface transportation directly to hub cities.

The strength of this tendency is based on the distance to a hub city.

One final factor that has served on occasion to depress some small community traffic is the resistance of some communities to the replacement of certificated services with commuter-type operations. However, as more time has elapsed under deregulation, small communities' perceptions of commuter services have improved, although more progress in this area is still needed.

We believe that the developing trend for cooperation between the communities and their EAS carriers will continue to grow in the future.

As I touched on earlier, we have recently observed that late data show healthy growth in the airline industry as the effects of the recession and the PATCO disruption abate.

Nationally, departures for December were up 13.2 percent over 1982 levels and seats were about 10.7 percent higher.

These upward national statistics are shared by all sizes of communities with our latest data showing large, medium and small hubs and nonhubs experiencing increases in capacity and flight frequencies.

RANGE OF RESULTS

My presentation until now has covered the national results for over 550 communities.

The range of results in this universe, however, has been enormous.

There have been many winners and many losers as we see an entire industry being restructured.

Certain airlines have failed; others have entered the airline industry for the first time.

Many communities have seen improved service; others have seen declines.

As I mentioned earlier, EAS points as a whole showed a 10.9 percent increase in aircraft flight frequencies and a 10.1 percent decrease in seats offered between December 1978 and December 1983.

About half the communities showed increases in departures, while the other half showed decreases.

About one-third of the communities showed increases in seats while two-thirds saw decreases.

We also have observed substantial variation by state. Approximately half of the states showed increases in departures from EAS points. The number of seats offered at EAS points increased in about one-quarter of the states. I attached a table to my prepared statement showing state-by-state results.

Specific examples also portray the variations that have occurred at different communities under deregulation.

New Bedford, Massachusetts, is probably our greatest success story.

Air New England filed notice to suspend service at New Bedford.

The community at first strongly resisted their leaving, but we proceeded to find a replacement carrier as required by law.

We selected Provincetown Boston Airlines from among several applicants.

PBA was selected for two years with a subsidy of about $800,000 for the first year and $420,000 for the second year.

While only about 5,000 passengers enplaned at New Bedford in 1980, the last year of subsidized service by Air New England, in 1982 the point enplaned nearly 40,000 passengers!

Today traffic is even greater; two new parking lots have been built; and the community no longer requires federal subsidy support.

At the opposite extreme, to show every road has a couple of bumps the experiences of five EAS communities' in the San Joaquin Valley of California sharply contrast to this success story.

These communities underwent from two to five carrier changes over the past five years, including the loss of jet service by United during late 1979 and early 1980.

Today passenger enplanements are only about one-third to one-half of the level before deregulation.

Subsidy is required at four of those points today; while we paid none in 1978.

We believe several unique characteristics of California air service explain the phenomenon. Three of these characteristics are:

The residual effects of regulation of fares and entry by the California Public Utilities Commission prior to deregulation;

The inability of replacement carriers to duplicate the service United withdrew; and

The domino effect of a New York financier's failed attempt to amalgamate several large commuters into one giant to serve the entire western U.S.

The prognosis for future air transportation at Valley points is better, but uncertainty persists. This uncertainty has been increased by United's recent decision to strengthen its San Francisco hub and open new small stations in California.

Although California will welcome this service, it will to some extent impair the ability of commuters and even other large aircraft operators to gain the financial stability they need to provide their small community service to California.

Last summer we participated with Chairman Mineta in oversight hearings in California to review these unique problems of the central valley communities, and I assure you we are working as hard as we know how to establish better service for that area.

PROGRAM ADMINISTRATION

I would like to discuss four specific areas of the Board's administration of the essential air service program that are often highlighted in the press and brought to Congressional attention by constituents.

The first relates to the amount of capacity we guarantee to essential service communities.

The Board guarantees each essential service community a specific number of daily seats to and from either one or two nearby hub airports. The number of seats is sufficient to carry traffic at a 50 or 65 percent load factor depending on the size of aircraft.

We normally limit this guarantee to 80 seats in each direction, since service greater than this can be provided by the marketplace.

I have attached to my written testimony an excerpt from our orders defining EAS for communities within a state. This excerpt provides a more detailed explanation of our policies on EAS.

Most of the communities' original essential air service determinations were made in 1979 and were based on 1978 data, a peak year for air travel. We now are in the process of reviewing these determinations as the law requires us to do. Where traffic has fallen off substantially, we may reduce the number of guaranteed seats to reflect more accurately current conditions.

Since we must subsidize essential service levels if they will not otherwise be provided, these adjustments are necessary to avoid wasteful subsidy expenditures on excessive service levels and to free up carrier resources for more productive use.

I would emphasize that we will not adjust definitions based on short-term results produced by recessions or other temporary conditions, and that we analyze each point's individual experience in detail before reaching a decision.

A second issue is our subsidy rate policy.

We generally have established fixed subsidy rates for one or two years because this approach is straightforward and provides carriers with good incentives to develop traffic and control costs.

We have experienced occasional isolated problems with this fixed rate policy, particularly when passenger revenues prove to be substantially lower than had been projected.

When this happens small carriers may suffer losses. Fortunately, these occasional rate problems are becoming very rare as the economy improves, traffic growth returns and replacement carriers better understand our policies.

Another area where questions frequently arise is our replacement carrier selection procedures. Our policy is to invite interested carriers to bid on available EAS routes and then to choose the best of the applicants.

I would like to stress that we do not operate a low bid system.

In over 40 percent of our competitive cases we have selected carriers other than the low bidder. We do, of course, include the proposed subsidy levels among our decisional criteria, but we also look carefully at each carrier's experience and reliability, the communities' comments and any other factors relevant to a particular case.

Communities' views are an important element in our selections.

In fact, we have chosen a carrier approved or endorsed by the community in 92 percent of our competitive selection cases.

Our policy is to secure service that best meets the needs of the communities at a reasonable cost.

The last administrative issue I will address is landing slots at hub airports. Our replacement carriers often need landing slots at congested hub airports

I want to report that the FAA has been superb in helping us accommodate essential service needs in that respect. Don Segner has been our contact and he's been most helpful.

Nevertheless, the shortage of slots continues to be a problem.

Even where carriers obtain the number of slots they want, the timing may not be the best for the EAS communities' needs.

Although restrictions imposed because of the PATCO work stoppage have been removed at many airports, slots will continue to be an EAS problem in 1984 at a few major hubs such as Chicago and Denver.

ALASKA AND OVERSEAS

The small community program covers service in Alaska and certain areas of the Pacific. I would like to comment briefly on the status of the programs in these areas.

In 1978, there were 232 eligible communities in Alaska and almost all received service from only one carrier, either by a certificated carrier or its subcontractor.

In 1978, 190 of the 232 points received subsidized service at an annual rate of $8 million.

There was very little activity under the new EAS program in Alaska until late 1982 when Congress ended the old section 406 subsidy program.

Until this subsidy cutoff, the certificated carriers in Alaska made virtually no changes in their subsidized operations.

However as the subsidy cutoff drew near, the only three certificated carriers receiving section 406 subsidy filed notices to suspend service at 185 of their subsidized points, requiring the Board to convert the entire state to the 419 program on short notice.

During fiscal 1983 we secured subsidy-free replacement service at 139 points, established subsidized replacement service at 18 points, and we are now in the process of resolving 419 subsidy cases for the remaining 28 points.

That process has worked remarkably well, and we are confident that the transition from the old to the new subsidy program will be complete within a matter of months.

We are currently subsidizing air service at only 25 points in Alaska at a total annual subsidy rate of $4.3 million. We project that the total annual subsidy need for Alaska will ultimately be $5.5 million.

Apart from the subsidy issue in Alaska, it appears that Alaska has benefited significantly from deregulation from a service standpoint. The independent pioneering spirit found up there is truly competitive. There currently is competitive service at 105 communities that were served by only one carrier during 1978.

There has also been a widespread upgrading of the size of aircraft that are being used to serve these communities, particularly from aircraft with fewer than 10 seats to 15-19 seat aircraft.

In the Pacific there are various territories that fall under the small community program.

The Board has defined essential service for the Commonwealth Area composed of Rota, Tinian and Saipan as well as the Territory of American Samoa.

These islands have undergone carrier changes and are currently receiving subsidy-free service.

Our activity in securing this service has been extensive.

The Territory of Guam recently was included in the essential service program under the terms of special legislation. Guam continues to receive unsubsidized jet service.

We have deferred essential service determinations for the trust territories of the Caroline Islands, the Marshall Islands and Johnston Island pending completion of negotiations to terminate the trusteeship relationship of the Caroline and Marshall Islands.

An agreement was recently reached in which, subject to Congressional approval, the islands would achieve semi-independent status. The agreement calls for our government's continued support for their air service through

October 1988, but under criteria and subsidy budgets that would be separate from the present small communities program.

The Board and its successor would be responsible for maintaining air service to the islands. The Office of Micronisian Status Negotiations expects the agreement will be effective by the end of the fiscal year 1984.

Finally, we have deferred essential air service determinations for Johnston Island until the status of the Caroline and Marshall Islands is resolved since historically these groups have been served together.

FUTURE CHANGES

I want to take a final moment or two to suggest changes for the future.

First, the Board is on record in its comments on a recent GAO report, evaluating the EAS program. We support a modest amount of increased flexibility for the essential service program.

For example, there are communities in the program that are within easy driving distance of larger airports where lower fares and more service are now available because of deregulation.

Two such examples come to mind — Danville, Virginia, and Lewiston/Auburn, Maine. Danville is surrounded by three hub airports that are within 74 miles driving distance. Roanoke is 74 highway miles away; Raleigh 70 miles; and Greensboro 49 highway miles. These three hub airports offer substantial amounts of service to a variety of destinations and, of course, because of their proximity, most Danville passengers drive to one of these hubs. We have been subsidizing a commuter carrier (Mid-South Airlines) to provide service that the law requires but that few people use. During the year ended June 30, 1982, the subsidy paid per Danville passenger flown was $208. Under Mid-South's current rate, we are projecting a subsidy per passenger of $186. The most recent data for the month of December 1983 indicate that we will pay Mid-South about $17,000 in subsidy for a total of 67 Danville passengers. This subsidy amounts to more than $250 per person, many times over the price of the ticket borne by the passenger.

Another example is Lewiston/Auburn, Maine, which is only 35 highway miles north of Portland. We are currently subsidizing a commuter carrier (Bar Harbor Airlines) to provide two round trips to Boston, six days a week, with 15-seat Beech 99's. Despite the small equipment and minimum frequencies, our annual subsidy rate is $276,000 and projected at well over $100 per passenger carried.

During the first quarter of 1983, the subsidy per passenger actually carried, as opposed to projected passengers, was over $140. While Portland is not a large hub such as Atlanta or Chicago, the fact that it is only 35 highway miles from Lewiston/Auburn clearly gives those communities access to the national transportation network, something we are required by law to guarantee.

Indeed, I will venture to say that Lewiston/Auburn passengers can drive to the Portland Airport in less time than many Washington, D.C. residents can reach National Airport, Dulles, or BWI.

The cost of maintaining air service at some of these small points will always be quite high in relation to the number of passengers who choose to use the local airport.

For this reason the Board agrees with GAO that some flexibility should be introduced into the program to allow for the elimination of certain points.

We should stress, however, that any elimination should be based on the long-term potential of a point and not on the results of short-term factors such as the PATCO strike or the recession which may have depressed the traffic.

We would of course not use this flexibility without a very careful review in each case.

At the same time, we believe that the Board should explicitly be authorized to engage in development tests to provide more than essential service for communities that are willing to share some risk. We have seen instances under the 419 program where high initial subsidies have allowed carriers to institute and then expand service so that traffic was greatly stimulated. We would have to exercise such flexibility very carefully, of course, to prevent subsidy expenditures from increasing unacceptably.

Accordingly, we would strongly recommend that upward flexibility be unequivocably tied with the ability to drop points from the program that do not respond to increased service.

Second, we will not be making any recommendations on whether the EAS program should continue after 1988. The CAB will sunset at the end of 1984, leaving four years before the EAS program is scheduled to expire.

We believe it would be premature and inappropriate for the Board to make a recommendation without the benefit of the additional experience that will be gained between 1984 and 1988.

Third, the concept of community cost-sharing has been explored by the CAB and the Department of Transportation. As required by the Deregulation Act, the CAB and DOT filed a joint report to Congress in 1980 which presented an analysis of the concept but suggested that more experience was needed with the small community program before a recommendation could be made.

A follow up report was promised.

Although this second joint report has not been issued, it is the CAB's position that, although cost sharing may be theoretically desirable, it should not be implemented between now and 1988 because there are practical constraints that could inhibit communities' ability to pay their share and a number of communities, some of which are isolated, would have to drop from the program. Further, the amount of savings from local subsidy sharing would be very modest since the entire essential service subsidy is running at only $50 million per year..

In closing, I would like to repeat my conclusion that overall the EAS prgram has been successful in fulfilling its mandate. We will continue to work with small communities to ensure that their Congressionally guaranteed essential service is maintained while at the same time attempting to keep our subsidy expenditures modest and our interference in the marketplace limited.

I'll be glad to answer any questions you may have.

Summary of Essential Air Service Departures and Seats by State December 1978 vs. December 1983

State 1/	Number of Departures Per Week		Percent Change in Deps.	Number of Seats Per Week		Percent Change in Seats
	12/1/78	12/1/83		12/1/78	12/1/83	
Alabama	260	203	- 21.9	10650	9751	- 8.4
Arizona	360	560	55.6	6786	8669	27.7
Arkansas	746	676	- 9.4	26822	16987	- 36.7
California	2271	2822	24.3	112881	120994	7.2
Colorado	414	372	- 10.1	18637	14328	- 23.1
Connecticut	480	929	93.5	7769	17728	128.2
Florida	357	816	128.6	30880	36452	18.0
Georgia	601	525	- 12.6	50848	40395	- 20.6
Idaho	255	419	64.3	15292	8672	- 43.3
Illinois	1002	1408	40.5	55989	45392	- 18.9
Indiana	451	265	- 41.2	7267	6644	- 8.6
Iowa	437	645	47.6	21132	14543	- 31.2
Kansas	859	701	- 18.4	19757	14358	- 27.3
Kentucky	131	239	82.4	6044	3882	- 35.8
Louisiana	618	750	21.4	46839	36261	- 22.6
Maine	747	765	2.4	33215	33232	0.1
Maryland	188	137	- 27.1	3870	2990	- 22.7
Massachusetts	732	1190	62.6	14004	16772	19.8
Michigan	748	1039	38.9	51443	40905	- 20.5
Minnesota	356	381	7.0	23285	13883	- 40.4
Mississippi	603	508	- 15.8	42274	38448	- 9.1
Missouri	522	498	- 4.6	24670	17389	- 29.5
Montana	95	132	38.9	1725	1406	- 18.5
Nebraska	490	559	14.1	17644	17647	-
Nevada	43	84	95.3	2989	1512	- 49.4
New Hampshire	414	467	12.8	10261	9360	- 8.8
New Jersey	253	486	92.1	5640	26629	372.1
New Mexico	314	446	42.0	10941	8973	- 18.0
New York	1554	1574	1.3	41406	64746	56.4
North Carolina	716	559	- 21.9	52111	33787	- 35.2
North Dakota	152	200	31.6	13371	12972	- 3.0
Ohio	339	300	- 11.5	20859	13604	- 34.8
Oklahoma	201	112	- 44.3	6810	3264	- 52.1
Oregon	297	292	- 1.7	14768	15659	6.0
Pennsylvania	788	582	- 26.1	19294	16776	- 13.1
South Carolina	267	327	22.5	19785	24427	23.5
South Dakota	267	234	- 12.4	18304	8756	- 52.2
Tennessee	97	36	- 62.9	1826	636	- 65.2
Texas	1287	1200	- 6.8	44334	40908	- 7.7
Utah	135	97	- 28.1	2275	1430	- 37.1
Vermont	85	68	- 20.0	1285	1196	- 6.9
Virginia	585	674	15.2	46890	34287	- 26.9
Washington	831	676	- 18.7	21457	19694	- 8.2
West Virginia	571	499	- 12.6	22953	14204	- 38.1
Wisconsin	904	848	- 6.2	57521	39833	- 30.8
Wyoming	216	354	63.9	9698	13068	34.7
Total-All EAS within 48 states	24039	26654	10.9	1094501	983449	- 10.1

1/ Includes all states within Continental U.S. except Delaware and Rhode Island, which have no points with EAS definitions.

ESSENTIAL AIR SERVICE GUIDELINES

We generally consider service to one hub to be sufficient to meet a community's essential air service requirements but we will designate two hubs if there are strong commercial, geographic and political ties in two directions and sufficient traffic to justify service to two hubs. In no case will we guarantee service to more than two hubs.

We normally require essential air service in relatively short markets (less than 150 miles) to be operated on a nonstop basis and permit one-stop service in markets with 150- to 250-mile stage lengths and up to two stops for markets over 250 miles in length. In specifying the number of stops to be allowed, we also consider availability of intermediate points between the eligible community and the designated hub(s) and may allow fewer or more stops depending upon the individual circumstances. Our major objective in limiting the number of stops is to ensure that the service is convenient and affords reasonable, timely access to the national air transportation system. Carriers may provide service with fewer stops than allowed by our determinations, however, and, in fact, do provide fewer stops in many cases.

In general, we require the provision of two round trips between the eligible community and its designated hub (two round trips to each hub for communities with dual-hub designations) each weekday and over the weekend period. This frequency level recognizes the normally higher levels of traffic on weekdays than over the weekend due to business travel. However, where traffic demand varies from this normal pattern or where there is sufficient traffic every day to warrant guaranteed daily service, we may require different frequency levels such as two round trips five-days-per-week or two round trips seven-days-per-week.

In establishing guidelines on capacity, the Board examined the level of demand that would normally be required to attract self-sufficient air service in the marketplace without our intervention. The Board concluded that it should impose a ceiling on the capacity it would guarantee based on that level of demand, thereby placing maximum reliance on market forces to meet a community's transportation needs above that level. This capacity limit to the essential air service determination recognizes our dual mandate in the declaration of policy in the Airline Deregulation Act, especially the direction to place maximum reliance on competitive market forces and on actual and potential competition to provide the needed air transportation system (section 102(a)(4))and to maintain a comprehensive and convenient system of continuous scheduled airline service for small communities and isolated areas (section 102(a)(8)).

As was observed in the Board's notice proposing the essential air transportation guidelines, estimates of the level of passenger demand necessary to induce air service in the marketplace without government subsidy range from six to 30 enplanements per day. Taking these estimates and adding a substantial cushion, the Board concluded that self-sufficient service would nearly always be provided at cities with more than 40 passengers per day. Therefore, the Board decided, as a general rule, 1/ to limit its capacity guarantee to the

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1/ Under certain circumstances, we will guarantee a higher capacity level for a brief, transitional period. Under our transitional policy, if a carrier proposes service reductions that would result in a substantial number of passengers being totally unaccommodated at a point, even if the point would continue to receive the maximum capacity guarantee for 40 enplanements per day, we will require maintenance of enough service by the incumbent carrier to accommodate all current traffic for a temporary period until the marketplace is able to overcome the short-term dislocation.

number of seats required to accommodate a point's actual traffic, up to a maximum of 40 enplanements a day.

In calculating the actual number of seats to be provided for the number of enplanements to be accommodated, the Board has decided that when small aircraft are used, i.e., aircraft of 9 seats or less, capacity based on a 50 percent load factor should be required. When 14-seat or larger aircraft are used, load factors up to 65 percent are acceptable. The policy to apply a different load factor standard depending on the size of aircraft is based on a study undertaken by our Office of Economic Analysis on the relationship between aircraft size, average load factors and the probability of obtaining a seat. That study concluded that when smaller aircraft are used to provide essential air service, the probability of a passenger securing a seat is lower and therefore a lower load factor standard and a higher number of required seats is warranted. Based on the data in that study, the Board decided to require capacity based on 50% average load factors when smaller aircraft are used. However, the study also showed that when larger aircraft are used, a higher load factor -- that is, a guarantee of fewer seats overall -- will produce the same degree of access as the 50 percent load factor on smaller aircraft. In view of this, the Board has allowed load factors of up to 65 percent for essential air service provided with larger aircraft. Applying these load factor standards to the maximum of 40 enplanements per day that we will guarantee service for, we will require up to 80 seats per day if aircraft of nine seats or less are used or as few as 62 seats if 14-seat or larger aircraft are used. [2]

While the capacity requirements in the original determinations were all expressed in terms of the number of seats to be provided based on the 50 percent load factor, given the Board's policy of allowing load factors up to 65 percent when 14-seat or larger aircraft are used, we have decided to state the capacity requirement of the determinations in terms of the number of passengers to be accommodated and the number of seats to be provided for both categories of aircraft size. In other words, a point enplaning 30 passengers per day will be guaranteed capacity to accommodate 30 enplanements per day which would require 60 seats in each direction when aircraft of nine seats or less are used or as few as 46 seats in each direction when 14-seat or larger aircraft are used. We would emphasize that we are not changing our policy on the level of service we are willing to support with subsidy but only the manner in which we express our guarantee. We also would stress that in securing essential air service, we do not apply the load factor standards rigidly. Instead, we consider the particular circumstances of each case and allow variances when warranted on the basis of the size of aircraft proposed to be operated.

Finally, unless a community agrees to an alternative type of service, we require that essential air service be provided with two pilots and with aircraft having two engines and unimpeded cabin entry through airstair doors or similar type access.

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[2] This essential air service definition is based on an interim policy. The Board is in the process of reevaluating the load factors used to establish essential air service capacity guarantees.

CIVIL AERONAUTICS BOARD

January 27, 1984

MEMORANDUM

TO: The Chairman

FROM: Director, OCCCA

CC: Vice Chairman McConnell
Member Schaffer
Member Smith
Member Morales
Managing Director
Director, BDA

SUBJECT: Essential Air Service Survey

We recently completed a survey of the more than 560 EAS points that have had essential air service determinations. 1/ We contacted the airport manager or other appropriate official of each point in an effort to assess their awareness and solicit their opinion of the 419 subsidy program and to obtain their views on the impact of deregulation on air service to their community.

With respect to the 48 contiguous states, responses were received from 322 of the 324 points. 2/ Over 28% of the communities felt their service today to be "superior" to that provided prior to deregulation; 38% described their service as "comparable" and 33% described it as "inferior." The frequency of service was cited by nearly 38% of those surveyed as the most productive change in their air service since deregulation. As to the most negative change in air service since deregulation, "equipment" (30%) and "fares" (33%) were most often cited.

More than 83% of the respondents were satisfied with the CAB's handling of the EAS program. Over 43% of the respondents were in favor of transferring EAS responsibilities to a "revised CAB" at sunset and approximately 30% felt the program should transfer to DOT at that time. In addition, an overwhelming 78% of the respondents believe that their community will continue to receive air service if the 419 program terminates in 1988.

1/ There are more than 700 points eligible for inclusion in our EAS program. Of these, over 560 have had essential air service determinations.

2/ Waycross, Georgia, received its determination after our survey was conducted. Orange County, California, has consistently received service by several large carriers in addition to several commuters. However, since only one of these carriers was certificated by the Board on the date the Deregulation Act was enacted, the community received an EAS determination.

I have attached copies of the survey results, which are stated as percentages and presented on survey forms. In addition to a nationwide summary, I have included the results as broken down by state groupings for OCCCA administrative purposes.

The response of the Airport Chief for the State of Hawaii on behalf of Hana, Kamuela, and Lanai was very positive overall. He rated the points' service "comparable" to that received prior to deregulation. He noted "frequency", with the substitution of commuter service, as the most productive change in service and "equipment", with decreased cargo capacity, as the most negative change. The CAB's handling of the EAS program was rated as excellent, and he felt the best choice among the stated alternatives regarding responsibility for the program at sunset to be DOT. He felt the Hawaiian points would continue to receive service if the 419 subsidy program ends in 1988. He commented that deregulation has worked, but that the State is concerned about the weakened position of intrastate carriers caused by the opening-up of outer-island points to large carriers. Attached is a copy of the combined survey results for the three points.

The Alaska Transportation Commission, on behalf of the Alaska EAS communities, rated its existing service as "comparable" to that provided prior to deregulation. It cited through plane service to destinations beyond Seattle as the most productive change in service and increased fares as the most negative. It felt the CAB's handling of the EAS program to be satisfactory, believes that an intermodal agency should handle EAS functions after the CAB sunsets, and feels that the State will continue to receive air service after the EAS program ends in 1988. A copy of the survey results for the State of Alaska is attached.

We also contacted the South Pacific points of Rota, Tinian, Saipan and Pago Pago and the Commonwealth of Puerto Rico to obtain their views of the EAS program and its impact on their air service. Copies of the survey results for each of the above is attached. 3/

I will be happy to discuss our survey with you if you have any questions or comments.

Linda L. Hall

3/ We will include Pago Pago's comments once they are received.

NATIONWIDE
48 CONTIGUOUS STATES
Community ____________
#POINTS - 322

Community Contact ____________

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior 28.6 Comparable 38.3 Inferior 33.1

   (a) What has been the most productive change in your air service since deregulation?

   Frequency 37.5 Timing 11 Equipment 9.5 None 31

   Other 11

   (b) What has been the most negative change in your air service since deregulation?

   Equipment 30.6 Fares 33.6 Hub 5.8 Schedules 15.3

   Other 14.7

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes 92.9 No 7.1

   (a) Do you know the approximate annual amount?

   Yes 87.1 No 12.9

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes 81.6 No 18.4

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes 78 No 17.7 No answer 4.3

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent 17 Good 43.8 Satisfactory 22.4 Poor 10.9 No answer 5.9

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT 30.4 Intermodal Agency 2.5 Revised CAB 43.5 Other 21.7
   No answer 1.9

General Comments;

#POINTS - 46

OCCCA Rep.: Nancy Brewer

Community ____________________

Community Contact ______________

WISCONSIN, MICHIGAN, INDIANA, ILLINOIS, OHIO

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior 30.4 Comparable 37 Inferior 32.6

   (a) What has been the most productive change in your air service since deregulation?

   Frequency 34.4 Timing 26.6 Equipment 9.4 None 18.7

   Other 10.9

   (b) What has been the most negative change in your air service since deregulation?

   Equipment 24.5 Fares 34 Hub 9.4 Schedules 20.8

   None ~~Other~~ 11.3

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes 95.7 No 4.3

   (a) Do you know the approximate annual amount?

   Yes 93.5 No 6.5

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes 95.7 No 4.3

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes 87 No 10.8 Questionable 2.2

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent 19.6 Good 15.2 Satisfactory 28.2 Poor 17.4 N.A. 19.6

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT 26.1 Intermodal Agency 2.2 Revised CAB 60.9 Other 6.5 N.A. 4.3

General Comments;

OCCCA Rep.: Susan Chase #POINTS - 51

Community ______________

Community Contact ______________

CONNECTICUT, DELAWARE, MAINE, MARYLAND, MASSACHUSETTES, NEW HAMPSHIRE, NEW JERSEY, NEW YORK, PENNSYLVANIA, RHODE ISLAND, VERMONT

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior 35.3 Comparable 47 Inferior 15.7 N.A. 2

   (a) What has been the most productive change in your air service since deregulation?

   Frequency 38.9 Timing 16.4 Equipment 10.4 None 23.9

   Other 10.4

   (b) What has been the most negative change in your air service since deregulation?

   Equipment 18.8 Fares 33.3 Hub 2.1 Schedules 10.4

   Other 35.4

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes 74.5 No 25.5

   (a) Do you know the approximate annual amount?

   Yes 82.4 No 17.6

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes 62.7 No 37.3

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes 84 No 10 N.A. 6

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent 13.7 Good 33.3 Satisfactory 37.3 Poor 9.8 N.A. 5.9

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilities should transfer?

   DOT 50 Intermodal Agency Revised CAB 30 Other 20

General Comments;

OCCCA Rep.: Mike Spollen #POINTS - 19

Community ____________________

Community Contact ______________

KENTUCKY, TENNESSEE, VIRGINIA, WEST VIRGINIA
EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior 21.1 Comparable 21.1 Inferior 57.8

   (a) What has been the most productive change in your air service since deregulation?

   Frequency 42.9 Timing 4.8 Equipment None 33.3

   Other 19.0

   (b) What has been the most negative change in your air service since deregulation?

   Equipment 31.5 Fares 22.9 Hub 11.4 Schedules 17.1

   Other 17.1

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes 89.5 No 10.5

   ~~(a) Do you know the~~ approximate annual amount?

   Yes 84.2 No 15.8

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes 89.5 No 10.5

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes 73.7 No 15.8 Not sure 10.5

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent 21.1 Good 31.6 Satisfactory 21.1 Poor 10.5 No comment 15.7

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT 36.8 Intermodal Agency 10.5 Revised CAB 31.6 Other 21.1

General Comments;

OCCCA Rep.: Norm Strickman #POINTS - 40

Community ____________________

Community Contact ________________

ALABAMA, FLORIDA, GEORGIA, MISSISSIPPI, NORTH CAROLINA, SOUTH CAROLINA

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior 27.5 Comparable 42.5 Inferior 30

   (a) What has been the most productive change in your air service since deregulation?

   Frequency 36.4 Timing 6.8 Equipment 13.6 None 31.8

   Other 11.4

   (b) What has been the most negative change in your air service since deregulation?

   Equipment 22.7 Fares 47.7 Hub 2.3 Schedules 18.2

   Other 9.1

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes 95 No 5

   (a) Do you know the approximate annual amount?

   Yes 95 No 5

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes 87.5 No 12.5

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes 87.5 No 12.5

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent 25 Good 45 Satisfactory 17.5 Poor 10 No opinion 2.5

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT 22.5 Intermodal Agency 5 Revised CAB 65 Other 7.5

General Comments;

OCCCA Rep.: Bill Chatfield #POINTS - 102

Community ____________________

Community Contact ____________

ARKANSAS, IOWA, KANSAS, LOUISIANA, MISSOURI, MINNESOTA, NEBRASKA
OKLAHOMA, SOUTH DAKOTA, TEXAS, NEW MEXICO

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior 22.5 Comparable 39.2 Inferior 38.3

   (a) What has been the most productive change in your air service since deregulation?

   Frequency 39.2 Timing 2.9 Equipment 4.9 None 47.1

   Other 1 N.A. 4.9

   (b) What has been the most negative change in your air service since deregulation?

   Equipment 44.6 Fares 35.1 Hub 1.4 Schedules 18.9

   Other ________

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes 99 No 1

   ~~(a) Do you know the~~ approximate annual amount?

   Yes 90.2 No 9.8

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes 76.5 No 23.5

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes 75.5 No 24.5

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent 12.7 Good 70.6 Satisfactory 9.8 Poor 6.9

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT 30.4 Intermodal Agency Revised CAB 25.5 Other 44.1
   No preference
   or
   No idea

General Comments;

OCCCA Rep.: John Smith #POINTS.- 64

Community ______________________

Community Contact ______________________

ARIZONA, CALIFORNIA, COLORADO, IDAHO, MONTANA, NEVADA, OREGON,
UTAH, WYOMING, WASHINGTON

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

    Superior 33.3 Comparable 33.3 Inferior 33.3

    (a) What has been the most productive change in your air service since deregulation?

    Frequency 32.9 Timing 9.1 Equipment 12.5 None 23.9

    Other 21.6

    (b) What has been the most negative change in your air service since deregulation?

    Equipment 31.6 Fares 26.3 Hub 9.2 Schedules 7.9

    Other 25

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

    Yes 95.3 No 4.7

    ~~(a) Do you know the~~ approximate annual amount?

    Yes 87.5 No 12.5

    (b) Are you aware that under current law the 419 subsidy will be discontinued?

    Yes 87.5 No 12.5

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

    Yes 67.2 No 21.9 N.A. 10.9

4. How would you rate the CAB's handling of the Essential Air Service Program?

    Excellent 16.8 Good 32.8 Satisfactory 31.3 Poor 14.1 N.A. 3

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

    DOT 21.9 Intermodal Agency 4.7 Revised CAB 60.9 Other 7.8 N.A. 4.7

General Comments;

OCCCA Rep.: John Smith

Community Hana, Kamuela, Lanai

Community Contact ________________

STATE OF HAWAII

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

Superior Comparable X Inferior

(a) What has been the most productive change in your air service since deregulation?

Frequency X Timing Equipment None

Other X Substitution of commuters for Hawaiian Airlines

(b) What has been the most negative change in your air service since deregulation?

Equipment X Fares Hub Schedules

Other X Decreased cargo capacity

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

Yes X No

(a) Do you know the approximate annual amount?

Yes X No

(b) Are you aware that under current law the 419 subsidy will be discontinued?

Yes X No

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

Yes X No

4. How would you rate the CAB's handling of the Essential Air Service Program?

Excellent X Good Satisfactory Poor

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

DOT X Intermodal Agency Revised CAB Other ____

(not an enthusiatic endorsement, but no suggested alternative)

General Comments: Feel deregulation has worked and sunset is appropriate; however, a major concern is the opening-up of outer-island airports to major carriers, which as weakened intrastate carriers. Also concerned about the potentially destructive fare wars between the three main State carriers, Aloha, Hawaiian, and Mid Pacific.

OCCCA Rep.: Dick Steinman

Community ______

Community Contact ______

STATE OF ALASKA
EAS QUESTIONNAIRE

(Alaska Transportation Commission answered for all EAS communities).

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior   Comparable X   Inferior

   (a) What has been the most productive change in your air service since deregulation?

   Frequency   Timing   Equipment   None

   Other X Through plane service to destinations beyond Seattle

   (b) What has been the most negative change in your air service since deregulation?

   Equipment   Fares X Increased   Hub   Schedules

   Other ______

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes X   No

   (a) Do you know the approximate annual amount?

   Yes X   No

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes X   No

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes X   No X*

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent   Good   Satisfactory X   Poor

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT   Intermodal Agency X   Revised CAB   Other ____

General Comments; The ATC believes that it is most important that an Alaskan Office be maintained after 1984 regardless of which agency assumes EAS responsibilities.

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*3. The State will continue receiving service, but it has serious concerns as to service levels to its many small communities.

Community Rota

Community Contact ______________

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

Superior   Comparable   Inferior X

(a) What has been the most productive change in your air service since deregulation?

Frequency   Timing   Equipment   None X

Other ______

(b) What has been the most negative change in your air service since deregulation?

Equipment X   Fares   Hub   Schedules

Other ______

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

Yes X   No

(a) Do you know the approximate annual amount?

Yes X   No

(b) Are you aware that under current law the 419 subsidy will be discontinued?

Yes X   No

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

Yes X   No

4. How would you rate the CAB's handling of the Essential Air Service Program?

Excellent X   Good   Satisfactory   Poor   Individual Attention Great

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

DOT   Intermodal Agency   Revised CAB X   Other ____

General Comments;

Community Tinian

Community Contact ________

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior   Comparable X   Inferior

   (a) What has been the most productive change in your air service since deregulation?

   Frequency   Timing   Equipment   None X

   Other ________

   (b) What has been the most negative change in your air service since deregulation?

   Equipment X (Not Major)   Fares   Hub   Schedules

   Other ________

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes X   No

   (a) Do you know the approximate annual amount?

   Yes X   No

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes X   No

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes X   No

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent X   Good   Satisfactory   Poor   Individual Attention Great

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT   Intermodal Agency   Revised CAB X   Other ____

General Comments;

Community Saipan

Community Contact ______

EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

Superior Comparable X Inferior

(a) What has been the most productive change in your air service since deregulation?

Frequency Timing Equipment None X

Other ______

(b) What has been the most negative change in your air service since deregulation?

Equipment Fares Hub Schedules

Other None

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

Yes X No

(a) Do you know the approximate annual amount?

Yes X No

(b) Are you aware that under current law the 419 subsidy will be discontinued?

Yes X No

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

Yes X No

4. How would you rate the CAB's handling of the Essential Air Service Program?

Excellent X Good Satisfactory Poor Individual Attention Great *

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

DOT Intermodal Agency Revised CAB X Other ______

General Comments;

* Particularly good when Island Airways folded.

OCCCA Rep: Mike Spollen
Community Mayaguez
Community Contact ______________

PUERTO RICO
EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior X Comparable Inferior

   (a) What has been the most productive change in your air service since deregulation?

   Frequency Timing X Equipment X None

   Other ______

   (b) What has been the most negative change in your air service since deregulation?

   Equipment Fares Hub Schedules

   Other X Frequencies & Traffic Down

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes No X

   (a) Do you know the approximate annual amount?

   Yes No X

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes X No

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes X No

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent X Good Satisfactory Poor

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT Intermodal Agency Revised CAB X Other ____

General Comments;

OCCCA Rep: Mike Spollen

Community Ponce

Community Contact ____________

PUERTO RICO
EAS QUESTIONNAIRE

1. How would you compare your existing service to that provided prior to airline deregulation?

   Superior   Comparable   Inferior X

   (a) What has been the most productive change in your air service since deregulation?

   Frequency   Timing   Equipment   None X

   Other ______

   (b) What has been the most negative change in your air service since deregulation?

   Equipment X   Fares   Hub   Schedules

   Other ______

2. Are you aware whether or not the airline servicing your city currently receives a federal subsidy?

   Yes X   No

   (a) Do you know the approximate annual amount?

   Yes X   No

   (b) Are you aware that under current law the 419 subsidy will be discontinued?

   Yes   No X

3. Do you believe that your community will continue to receive air service if the 419 subsidy program terminates in 1988?

   Yes   No X *

4. How would you rate the CAB's handling of the Essential Air Service Program?

   Excellent   Good X   Satisfactory   Poor

5. In December 1984, with the phasing out of the CAB, to which government agency do you believe essential air service responsibilites should transfer?

   DOT   Intermodal Agency   Revised CAB   XXXX Unsure

General Comments: * New highway to San Juan reduces incentive to fly.

Mr. MINETA. Please proceed.

TESTIMONY OF DAN McKINNON, CHAIRMAN, CIVIL AERONAUTICS BOARD, ACCOMPANIED BY PATRICK V. MURPHY, ASSOCIATE DIRECTOR, ECONOMIC AFFAIRS, BUREAU OF DOMESTIC AVIATION, CIVIL AERONAUTICS BOARD

Mr. McKINNON. Thank you, Mr. Chairman. It is a delight to be with you, Mr. Hammerschmidt and other members of the committee.

I would like to first recognize that we have one other member of the Civil Aeronautics Board, our member, Jim Smith, with us today. We have at least two members negotiating with foreign countries at the moment that couldn't be here. We appreciate the opportunity to be here and present and share with you the Civil Aeronautics Board's views on the Essential Air Service program.

I would like to start off by saying, of all the Government programs I know about, I don't know of a better run program or better conceived program of Congress. When they came up with this idea, it was a very fine program. I think the staff at the CAB have done an exceptional job heading up this program. It is headed by Pat Murphy and John Coleman, as a matter of fact, our subsidies are estimated that on an overall basis our subsidy is $41 and a penny per passenger. On the overall basis, it comes to $43.25. If you can estimate something within 5 percent in a program like this, that is really exceptional.

The accomplishments of the EAS program fall into three broad categories. First, in the more than 5 years since the Airline Deregulation Act was passed, not one of the more than 700 communities that were guaranteed essential air service has lost all air service. Second, the EAS program has reduced the amount of subsidy required to support air service by one-third, or $25 million. Third, the EAS program has allowed carriers to restructure their route systems quickly and efficiently.

As you know, one of the reasons for including the EAS provisions in the Deregulation Act was to insure that small communities would not lose air service as a result of the airlines' new freedom. In the 10 years prior to the passage of the Deregulation Act, 137 small communities throughout the country had been deleted from the certified air service map. Some of the 137 communities were able to obtain commuter service, but most lost all their air service.

Congress was concerned that deregulation would increase this steady stream of lost air service. Not only were small communities losing scheduled air service, but it became obvious that the old subsidy program under section 406 was not working. Despite the cessation of service at many points and the decline in quality of service at many other points, the subsidy bill kept growing.

The reasons were two: The local service carriers, the major beneficiaries of the section 406 program, were subsidized on the basis of their overall financial needs; and many communities included in this program generated sufficient traffic to support unsubsidized service.

The Essential Air Service program has reversed the trend of increasing subsidy expenditures and has halted the steady loss of air service to certificated communities. The continuation of service at all essential air service points contrasts sharply to what has happened with small communities outside of the Essential Air Service program. These communities were not listed on any carrier certificates but were served by commuter carriers when the Deregulation Act passed, and were, therefore, never guaranteed service under the new program. Over half of these communities, or 84 of 162, lost their air service between 1978 and 1983.

Further, from June 1978 to June 1983, EAS communities experienced a 5-percent increase in aircraft departures while the non-EAS communities still receiving service suffered a 36-percent decrease.

The number of communities requiring subsidy support has also declined to nearly one-half of the number receiving taxpayer support under section 406 when the Deregulation Act was passed. In 1978, 202 points in the lower 48 States were subsidized. Now that all remnants of the old subsidy program have ended, the number is 104.

Total subsidy in the lower 48 States amounted to $71.7 million in 1978, and is expected to be about $40 million in fiscal year 1984. Up until 1981, there were 190 points in Alaska which continued to receive subsidized service under section 406.

The transition to the 419 program did not begin in Alaska until 1982. With the transition now almost completed, the number of points requiring subsidy support has been reduced to approximately 50. Alaskan subsidy in 1981 amounted to about $9.5 million, while today we estimate Alaskan subsidy at about $5.5 million annually. These statistics show some of the more obvious benefits of the program. Less obvious is the substantial contribution to the efficient restructuring of the airline industry.

Since the Board no longer routinely subsidizes carriers to fly jets or large prop aircraft into small communities where there is little traffic, large carriers have been able to withdraw those aircraft and use them to provide improved and expanded services in major markets. The void generally has been filled by commuter carriers operating aircraft of 60 seats or less.

From the standpoint of economic efficiency, the better matching of seats to passengers makes sense. The major carriers are better off and the commuters continue their healthy growth.

It is important to remember that the change from large- and medium-sized aircraft at many communities was fully warranted on the basis of existing traffic. Of the 327 communities that currently have an EAS definition in the lower 48 States, 34 averaged fewer than 10 passenger boardings per day in 1978, and 93 averaged fewer than 30 enplanements daily.

There has been a change in the carriers providing air service at 198 of the eligible communities. Of these 198 points, 148 have experienced only one carrier transition. Only 50 communities have experienced more than one carrier transition since deregulation. This demonstrates a stable pattern of replacement service.

There has also been an improvement in the way small communities are served. EAS communities now receive more service to large and medium hub airports and less to small hub and nonhub points. At these larger airports, passengers can make connections to a wide variety of destinations and have an array of price options available. EAS communities served by small carriers enjoyed a 21-percent increase in the frequency of nonstop flights to large and medium hub airports from June 1978 to June 1983.

Overall, on a national basis, I think the section 419 essential air service program has been a great success in meeting its primary objective of maintaining air service at small communities in an efficient way. Not only are the overall objectives of the program being met, but the communities involved appear generally satisfied with the way the program is working. This is, in no small measure, a tribute to the talented and dedicated people we have working on the program at the CAB. They are nothing short of sensational.

Our Office of Congressional, Community, and Consumer Affairs recently completed a telephone survey of local officials at all of the EAS communities in the 48 States. We have also received the views of the Alaska Transportation Commission, which has surveyed Alaskan communities. The surveys found that the program is considered to be run fairly and has resulted in good, reliable service as intended by Congress. I think these surveys serve as convincing proof that the program is working. I have attached to my written testimony a copy of the survey results.

Although we are pleased with the effectiveness of the program, traffic results at essential air service communities have not all been positive. As hoped, the essential air service program has resulted in higher flight frequency and a better matching of aircraft capacity to demand. Comparing December 1983 and December 1978, we see that aircraft departures at EAS points rose 10.9 percent while seats declined 10.1 percent, as commuters replaced carriers that operated jets or larger props in many markets. Nevertheless, traffic has declined at most EAS communities since 1978, including those that have continued to receive service from a certified carrier.

However, 1978 was a banner year for the airline industry, and a comparison to 1976 traffic levels is more meaningful. From 1976 to 1982, traffic increased at 25 percent of the EAS communities and declined at 75 percent. However, we do not expect this decline to persist since we already are seeing positive indications as the economy strengthens.

Much of the traffic declines at the EAS points occurred during the 1980–82 period when the entire airline industry suffered, not just small community air service. Many of the forces causing certain small communities to lose traffic are beyond the control of the program, such as the economic recession and the effects of the PATCO work stoppage.

The recession affected the level of demand for air travel and the financial stability of the airline industry. In addition to depressed traffic, commuters encountered high interest rates at the very time they were trying to fill the gaps left by existing certificated carriers. Despite these problems, many excellent commuter carriers are now providing replacement service.

The PATCO strike and its aftermath restricted the number of flights carriers offer as well as the timing of departures. The PATCO disruption had a disproportionately severe impact on the commuter carrier group which had been the most rapidly growing segment within the industry. Most importantly, it reduced the availability of convenient connections.

In addition to these external factors, the airline industry underwent two major changes that have altered travel patterns and contributed to the decline in traffic at certain communities throughout the Nation and the improvement in service at others.

First, deregulation has led to better service and substantially lower fares in many major markets. This added competition in major markets has produced some of the best travel bargains ever seen. These benefits flow to everyone who can go to a hub airport, and people have been driving longer distances to take advantage of these bargains. This is a positive development for residents of small- and medium-sized communities, but it serves to draw them away from using their own airports and reduces traffic at local facilities.

Second, as a related matter, competition and the lowering of fares in major markets have eliminated the cross-subsidization of small points and short-haul routes. Before deregulation, major carriers could support thinner routes with profits from major long-haul routes. The CAB's mandatory fare formula encouraged this.

Today, every route must bear its own costs. This causes fares at small points to increase and reinforces the tendency of travelers to take surface transportation directly to hub cities. The strength of this tendency is based on the distance to a hub city.

One final factor that has served on occasion to depress some small community traffic is the resistance of some communities to the replacement of certificated services with commuter-type operations. However, as more time has elapsed under deregulation, small communities' perceptions of commuter services have improved, although more progress in this area is still needed. We believe that the developing trend for cooperation between the communities and their EAS carriers will continue to grow in the future.

As I touched on earlier, we have recently observed that late data show healthy growth in the airline industry as the effects of the recession and the PATCO disruption abate. Nationally, departures for December were up 13.2 percent over 1982 levels, and seats were about 10.7 percent higher. These upward national statistics are shared by all sizes of communities with our latest data showing large, medium and small hubs and nonhubs experiencing increases in capacity and flight frequencies.

My presentation until now has covered the national results for over 550 communities. The range of results in this universe, however, has been enormous. There have been many winners and many losers as we see an entire industry being restructured.

Certain airlines have failed; others have entered the airline industry for the first time. Many communities have seen improved service; others have seen declines. As I mentioned earlier, EAS points as a whole showed a 10.9-percent increase in aircraft flight frequencies and a 10.1-percent decrease in seats offered between December 1978 and December 1983. About half the communities showed increases in departures, while the other half showed decreases. About one-third of the communities showed increases in seats, while two-thirds saw decreases.

We also have observed substantial variation by State. Approximately half of the States showed increases in departures from EAS points. The number of seats offered at EAS points increased in about one-quarter of the States. I have attached a table to my prepared statement showing State-by-State results for your benefit.

Specific examples also portray the variations that have occurred at different communities under deregulation. New Bedford, Mass. is probably our greatest success story. Air New England filed notice to suspend service at New Bedford. The community at first strongly resisted their leaving, but we proceeded to find a replacement carrier, as required by law.

We selected Provincetown Boston Airlines from among several applicants. PBA was selected for 2 years with a subsidy of about $800,000 for the first year and $420,000 for the second year. While only about 5,000 passengers enplaned at New Bedford in 1980, the last year of subsidized service by Air New England, in 1982 the point enplaned nearly 40,000 passengers. Today, traffic is even greater. Two new parking lots have been built; and the community no longer requires Federal subsidy support.

At the opposite extreme, to show every road has a couple of bumps, the experiences of five EAS communities in the San Joaquin Valley of California sharply contrast to this success story. These communities underwent from two to five carrier changes over the past 5 years, including the loss of jet service by United during the late 1979 and early 1980 period.

Today, passenger enplanements are only about one-third to one-half of the level before deregulation. Subsidy is required at four of those points today, while we paid none in 1978.

We believe several unique characteristics of California air service explain the phenomenon. Three of these characteristics are: The residual effects of regulation of fares and entry by the California Public Utilities Commission prior to deregulation; the inability of replacement carriers to duplicate the service United withdrew; and the domino effect of a New York financier's failed attempt to amalgamate several large commuters into one giant to service the entire western United States.

The prognosis for future air transportation at valley points is better, but uncertainty persists. This uncertainty has been increased by United's recent decision to strengthen its San Francisco hub and open new small stations in California. Although California will welcome this service, it will to some extent impair the ability of commuters and even other large aircraft operators to gain the financial stability they need to provide their small community service to small communities in California.

Last summer, we participated with you, Chairman Mineta, in oversight hearings in California to review these unique problems of the central valley communities, and I assure you we are working as hard as we know how to establish better service for that area.

I would like to discuss four specific areas of the Board's administration of the essential air service program that are often highlighted in the press and brought to congressional attention by constituents. The first relates to the amount of capacity we guarantee to essential service communities.

The Board guarantees each essential service community a specific number of daily seats to and from either one or two nearby hub airports. The number of seats is sufficient to carry traffic at a 50 or 65 percent load factor depending on the size of aircraft. We normally limit this guarantee to 80 seats in each direction, since service greater than this can be provided by the marketplace.

I have attached to my written testimony an excerpt from our orders defining EAS for communities within a State. This excerpt provides a more detailed explanation of our policies on EAS.

Most of the communities' original essential air service determinations were made in 1979 and were based on 1978 data, a peak year for air travel. We now are in the process of reviewing these determinations as the law requires us to do. Where traffic has fallen off substantially, we may reduce the number of guaranteed seats to reflect more accurately current conditions. Since we must subsidize essential service levels if they will not otherwise be provided, these adjustments are necessary to avoid wasteful subsidy expenditures on excessive service levels and to free up carrier resources for more productive use.

I would emphasize that we will not adjust definitions based on short-term results produced by recessions or other temporary conditions, and that we analyze each point's individual experience in detail before reaching a decision.

A second issue is our subsidy rate policy. We generally have established fixed subsidy rates for 1 or 2 years because this approach is straightforward and provides carriers with good incentives to develop traffic and control costs.

We have experienced occasional isolated problems with this fixed rate policy, particularly when passenger revenues prove to be substantially lower than had been projected. When this happens, small carriers may suffer losses. Fortunately, these occasional rate problems are becoming very rare as the economy improves, traffic growth returns and replacement carriers better understand our policies.

Another area where questions frequently arise is our replacement carrier selection procedures. Our policy is to invite interested carriers to bid on available EAS routes and then to choose the best of the applicants.

I would like to stress that we do not operate a low-bid system. In over 40 percent of our competitive cases, we have selected carriers other than the low bidder. We do, of course, include the proposed subsidy levels among our decisional criteria, but we also look carefully at each carrier's experience and reliability, the communities' comments, and any other factors relevant to a particular case.

Communities' views are an important element in our selections. In fact, we have chosen a carrier approved or endorsed by the community in 92 percent of our competitive selection cases. Our policy is to secure service that best meets the needs of the communities at a reasonable cost.

The last administrative issue I will address is landing slots at hub airports. Our replacement carriers often need landing slots at congested hub airports. I want to report that the FAA has been superb in helping us accommodate essential service needs in that respect. Don Segner has been our contact, and he has been most helpful.

Nevertheless, the shortage of slots continues to be a problem. Even where carriers obtain the number of slots they want, the timing may not be the best for the EAS communities' needs. Although restrictions imposed because of the PATCO work stoppage have been removed at many airports, slots will continue to be an EAS problem in 1984 at a few major hubs such as Chicago and Denver.

The small community program covers service in Alaska and certain areas of the Pacific. I would like to comment briefly on the status of the programs in these areas.

In 1978, there were 232 eligible communities in Alaska and almost all received service from only one carrier, either by a certificated carrier or its subcontractor. In 1978, 190 of the 232 points received subsidized service at an annual rate of $8 million.

There was very little activity under the new EAS program in Alaska until late 1982 when Congress ended the old section 406 subsidy program. Until this subsidy cutoff, the certificated carriers in Alaska made virtually no changes in their subsidized operations. However, as the subsidy cutoff drew near, the only three certificated carriers receiving section 406 subsidy filed notices to suspend service at 185 of their subsidized points, requiring the Board to convert the entire State to the 419 program on very short notice.

During fiscal year 1983, we secured subsidy-free replacement service at 139 points, established subsidized replacement service at 18 points, and we are now in the process of resolving 419 subsidy cases for the remaining 28 points in Alaska. That process has worked remarkably well, and we are confident that the transition from the old to the new subsidy program will be complete within a matter of months.

We are currently subsidizing air service at only 25 points in Alaska at a total annual subsidy rate of $4.3 million. We project that the total annual subsidy need for Alaska will ultimately be $5.5 million.

Apart from the subsidy issue in Alaska, it appears that Alaska has benefited significantly from deregulation from a service standpoint. The independent pioneering spirit found up there is truly competitive. There currently is competitive service at 105 communities that were served by only one carrier during 1978.

There has also been a widespread upgrading of the size of aircraft that are being used to serve these communities, particularly from aircraft with fewer than 10 seats to 15- to 19-seat aircraft.

I would also like to report, at the urging of Senator Stevens, that I went up there and personally checked on the service up there, and feel, along with him, that service is working very well.

In the Pacific, there are various territories that fall under the small community program. The Board has defined essential service for the Commonwealth area composed of Rota, Tinian, and Saipan, as well as the territory of American Samoa. These islands have undergone carrier changes and are currently receiving subsidy-free service.

Our activity in securing this service has been extensive. The territory of Guam recently was included in the essential service program under the terms of special legislation. Guam continues to receive unsubsidized jet service.

We have deferred essential service determinations for the Trust Territories of the Caroline Islands, the Marshall Islands and Johnston Island pending completion of negotiations to terminate the trusteeship relationship of the Caroline and Marshall Islands.

An agreement was recently reached in which, subject to congressional approval, the islands would achieve semi-independent status. The agreement calls for our Government's continued support for their air service through October 1988, but under criteria and subsidy budgets that would be separate from the present small communities program.

The Board and its successor would be responsible for maintaining air service to the islands. The Office of Micronisian Status Negotiations expects the agreement will be effective by the end of the fiscal year 1984.

Finally, we have deferred essential air service determinations for Johnston Island until the status of the Caroline and Marshall Islands is resolved, since historically these groups have been served together.

I want to take a final moment or two to suggest changes for the future. First, the Board is on record in its comments on a recent GAO report, evaluating the EAS program. We support a modest amount of increased flexibility for the essential service program. For example, there are communities in the program that are within easy driving distance of larger airports where lower fares and more service are now available because of deregulation.

Two such examples come to mind: Danville, Va., and Lewiston/Auburn, Maine. Danville is surrounded by three hub airports that are within 74 miles driving distance. Roanoke is 74 highway miles away; Raleigh, 70 miles; and Greensboro, 49 highway miles. These three hub airports offer substantial amounts of service to a variety of destinations and, of course, because of their proximity, most Danville passengers drive to one of these hubs.

We have been subsidizing a commuter carrier—Mid-South Airlines—to provide service that the law requires but that few people use. During the year ended June 30, 1982, the subsidy paid per Danville passenger flown was $208 per person. Under Mid-South's current rate, we are projecting a subsidy per passenger of $186. The most recent data for the month of December 1983 indicate that we will pay Mid-South about $17,000 in subsidy for a total of 67 Danville passengers. This subsidy amounts to more than $250 per person, many times over the price of the ticket borne by the passenger.

Another example is Lewiston/Auburn, Maine, which is only 35 highway miles north of Portland. We are currently subsidizing a commuter carrier—Bar Harbor Airlines—to provide two round trips to Boston, 6 days a week, with 15-seat Beech 99's. Despite the small equipment and minimum frequencies, our annual subsidy rate is $276,000 and projected at well over $100 per passenger carried.

During the first quarter of 1983, the subsidy per passenger actually carried, as opposed to projected passengers, was over $140. While Portland is not a large hub such as Atlanta or Chicago, the fact that it is only 35 highway miles from Lewiston/Auburn clearly gives those communities access to the national transportation network, something we are required by law to guarantee. Indeed, I will venture to say that Lewiston/Auburn passengers can drive to the Portland Airport in less time than many Washington, D.C. residents can reach National Airport, Dulles, or BWI.

The cost of maintaining air service at some of these small points will always be quite high in relation to the number of passengers who choose to use the local airport. For this reason, the Board agrees with GAO that some flexibility should be introduced into the program to allow for the elimination of certain points.

We should stress, however, that any elimination should be based on the long-term potential of a point and not on the results of short-term factors such as the PATCO strike or the recession, which may have depressed the traffic. We would, of course, not use this flexibility without a very careful review in each case.

At the same time, we believe that the Board should explicitly be authorized to engage in development tests to provide more than essential service for communities that are willing to share some risk. We have seen instances under the 419 program where high initial subsidies have allowed carriers to institute and then expand service so that traffic was greatly stimulated. We would have to exercise such flexibility very carefully, of course, to prevent subsidy expenditures from becoming increasing unacceptably. Accordingly, we would strongly recommend that upward flexibility be unequivocably tied with the ability to drop points from the program that do not respond to increased service.

Second, we will not be making any recommendations on whether the EAS program should continue after 1988. The CAB will sunset at the end of 1984, leaving 4 years before the EAS program is scheduled to expire. We believe it would be premature and inappropriate for the Board to make a recommendation without the benefit of the additional experience that will be gained between 1984 and 1988.

Third, the concept of community cost-sharing has been explored by the CAB and the Department of Transportation. As required by the Deregulation Act, the CAB and DOT filed a joint report to Congress in 1980 which presented an analysis of the concept but suggested that more experience was needed with the small community program before a recommendation could be made. A followup report was promised.

Although this second joint report has not been issued, it is the CAB's position that, although cost-sharing may be theoretically desirable, it should not be implemented between now and 1988 because there are practical constraints that could inhibit communities' ability to pay their share and a number of communities, some of which are isolated, would have to drop from the program. Further, the amount of savings from local subsidy sharing would be very modest since the entire essential service subsidy is running at only $50 million per year.

In closing, I would like to repeat my conclusion that overall, the EAS program has been successful in fulfilling its mandate. We will continue to work with small communities to insure that their congressionally guaranteed essential service is maintained while, at the same time, attempting to keep our subsidy expenditures modest and our interference in the marketplace limited.

I will be glad to answer any questions you may have.

Mr. MINETA. Thank you very much, Mr. Chairman.

In 1978, the Airline Deregulation Act gave all certificated cities a program of continued essential air service for 10 years. Although the 10 years are far from over, I believe it appropriate at this time to consider whether we can make any adjustments in the program to facilitate the development of service at some of the small cities which have lagged behind and to insure that the general taxpayer is getting a reasonable value per dollar on subsidy.

Now, one remedy which has been suggested is front-loading of subsidy—that is, providing more subsidy to insure a higher quality of service—in the hopes that the service would catch on and, in the long run, be able to operate at a much lower level of subsidy.

Your testimony suggests that the Board would support this kind of an approach. Do you regard it primarily as a means for giving cities one last chance, or do you think it is likely to be successful in a significant number of cities? And what legislative changes would be needed to accomplish this program?

Mr. MCKINNON. Mr. Chairman, I think maybe our testimony misled you a little bit. It is our general feeling that front-loading would not be a very successful idea, primarily because, as we analyze these communities we are giving air service to now, we don't think they would guarantee enough traffic to stand on their own, and you would use the front-loaded money, and then they wouldn't have any money coming to maintain their service. So, as a result, it probably would do more damage to the communities than good. There may be one or two that you could do that with.

Mr. MINETA. What about the example that you showed where the subsidy went from $800,000 to $420,000 but passengers went from 5,000 to 40,000? I believe that was New Bedford.

Mr. MCKINNON. Yes. That is a unique case. That is an exception. We analyze this on an overall basis. We do not feel that front-loading would be a successful program. If you look at a lot of these commuter carriers that operate, many of them are very marginal operations. If you frontload a community, it is just not going to have the same service afterwards, in our judgment. It is a judgment call but I think our staff has a lot of experience on this.

Mr. MINETA. Your testimony also suggests that the Board should have flexibility to eliminate cities from the EAS program. Would you want to base termination primarily on proximity to large cities and what would be the driving time to a large airport that you would use as a standard for consideration of deletion?

How many EAS cities are within this kind of criteria on driving time?

Mr. MCKINNON. Well, Mr. Chairman, on our flexibility we would like to have a little bit more than just the closeness to a major hub. That is one factor.

We think there are other factors to look at too, like the number of passengers carried, the total subsidy involved, the subsidy per passenger involved, the trends in the marketplace. There are a variety of factors we should look at, although we do find that the closer you get to a hub, the less the essential air service program is really needed and is utilized.

We think we need to have more flexibility than just the number of miles from the hub to be a determining factor of the trends of passenger loading, the costs, the subsidies, that type of thing.

Mr. MINETA. Now, it has been suggested in a joint CAB-DOT study completed in January of 1980 that localities should share some of the costs of the subsidy program. Your testimony suggests that CAB has since changed its opinion on this matter.

Could you explain CAB's past and present views on the issue of subsidy cost sharing?

Mr. MCKINNON. About 2 years ago at the RAA, in a speech I proposed that we get into a sharing cost subsidy program. It did not even get much attention from them, much less anybody else.

As we analyze this, we are concerned that a lot of communities do not have the financial resources to get in. They might want to, but they don't have the ability because they have such a small tax base or their moneys are used for schools or for fire protection and police protection. And we use it for airline service. We just don't think they would have the ability to handle that.

The Federal Government did make a commitment to these communities. Some of them were delighted with that commitment that they would provide service to 1988.

So we look at the community's ability to share and we first don't think they have the ability to share even if the desire was there. And second, we feel that they have come back and said that the Congress made a commitment to us through 1988 and we expect the Congress to live up to that.

Mr. MINETA. Let me switch gears for a minute here.

As a result of the compromise in the fiscal year 1984 transportation appropriations conference, the Board's salary and expenses appropriation ends in August, and no money is available for the Board's activities for August and September. We expect Congress to pass the supplemental appropriations to cover this deficiency. But as you know, no legislation is ever automatic, and I think it would be useful to highlight the need for congressional action.

Assume for the sake of argument that Congress failed to act and the Board could not function in August and September. What would be the consequences for the EAS program?

Mr. MCKINNON. Mr. Chairman, it would be disastrous. What would happen is most of these——

Mr. MINETA. Would you like to repeat that again?

Mr. MCKINNON. It would be disastrous. The reason it would be is that most of these small EAS commuter operations are somewhat marginally profitable and they don't make enough profit to sustain themselves.

We would have to shut down the CAB and furlough all the people at least for 2 months under that scenario. As a result, there would be no checks going out to pay for the essential air service provided by these carriers.

Very few of them would have the capability of sustaining the financial position on a viable basis through those 2 months without the subsidy checks from the Federal Government or the CAB.

Therefore, that would eventually involve suspending essential air service to 130 subsidized points throughout the United States.

I believe there are about 39 carriers involved in that.

Mr. MURPHY. It is 42 subsidized carriers.

Mr. MCKINNON. And once you bankrupt a carrier, it is awful hard to get somebody else to start up. There is tremendous capital investment involved for very little reward.

There is no question, and I know the Congress is very responsible and I feel positive they will come through with the money to keep the program alive.

Mr. MINETA. The 1978 act calls for CAB sunset on December 31, 1984, and for DOT to take over the EAS program at that time.

Have CAB and DOT been meeting to plan the transition and has DOT come up with a plan as to how they will organize the program when they take it over?

Mr. MCKINNON. That is a two-part question, Mr. Chairman. I have personally met with some of the high level officials from Elizabeth Dole on down and discussed how the essential air service program works and what a fine program we have and how it should continue.

I think on the second part of that question you may want to talk to them and find out what they plan to do with that when they assume that responsibility.

Mr. MINETA. Have they asked you if we do it this way how do you think it would work? Has DOT engaged in any kind of give and take with you?

Mr. MCKINNON. We had a working group.

Pat, you have been involved in the working group.

Mr. MURPHY. I would characterize it, Mr. Chairman, as our advising them how we run the program and they are asking us questions about our administration. I think it has been more in that nature, on a give and take, than suggestions on how they might do it.

Mr. MINETA. If we are to turn this program over to the executive branch, that raises the possibility that decisions on levels of service, levels of subsidy and carrier selection could be based on political considerations rather than aviation policy.

I am wondering, does the Board feel any political pressures in administering the program right now and are there institutional features of the Board which have enabled you to resist these kinds of pressures?

Mr. MCKINNON. Well, we of course have had various inputs by the Congress by letter and in person and verbally over the telephone various times.

Mr. MINETA. Appropriations bills or whatever.

Mr. MCKINNON. Yes, sir, a variety of inputs.

I think we have been in the unique position, being an independent regulatory agency, to maintain what we thought was to run the program the best way possible. I think the success of the program and the consistency of the way it is run in cities all over the country shows that we have been able to use our judgment without too much congressional influence or input. As a matter of fact, sometimes we have gone other ways.

I am sure you have had testimony about the problem of Western suspending service in Pierre and the CAB going along with it because we thought it lived up to the intent of the Congress. What we try to do is follow the total intent of Congress rather than an individual Congressman. I think we have withstood these.

And I think that Congressmen who have been disappointed in our actions, we try to be up front. Once they understand the situation, they accept it.

Mr. MINETA. Mr. Hammerschmidt.

Mr. HAMMERSCHMIDT. In reviewing the number of staff that CAB has to administer the EAS program, I notice that in 1984 the Board will have an estimated 137 people performing this function, which is a decrease of 23 positions from the number you had in 1981.

Has this decline in staff affected your ability to administer the program, and if so, in what ways?

Mr. MCKINNON. I think we have tried to eliminate as many of the support people as possible, Congressman, to try to keep intact the nucleus and core of the group that is headed up by Pat Murphy to keep the program viable. Now we are down to pretty slim pickins to eliminate any additional people without affecting the program.

I think what we have been able to do is keep a good running program up to this point by being very choosey about how we slim the program down. But from here on out, I think we are going to start cutting into the muscle.

Mr. HAMMERSCHMIDT. You mention in your testimony that the Board selects the EAS carrier approved of or endorsed by the community affected in 92 percent of the cases.

What do you do in those situations where the community does not support any of the carriers involved? For example, would you solicit or try to solicit additional proposals if the community objected to it?

Mr. MCKINNON. Sometimes where we have gone against the community in that 8 percent of the time—Pat, you might share with the Congressman a little bit about how you handled some of those.

Mr. MURPHY. Well, Congressman, in those rare occasions where the community does not go along with any of the choices that we favor, we generally have gone ahead and made a recommendation to the Board which they have followed up on.

Some of those cases have been our biggest success stories, I might point out, with the community, where the community, perhaps, wanted a local, little fixed base operator to be selected, and we felt it would be better off to select a large established commuter. So that in spite of the community's views, they usually come around later on to suggest that things have worked out well.

There have been occasions in the 5 years where we have selected a carrier either with or without the community's endorsement that has not worked so well, but generally we think it has worked very well.

Mr. HAMMERSCHMIDT. In its written testimony, the National Association of State Aviation Officials stated that the EAS program has evolved into a low-bid system whereas you claim that you do not operate on that basis. I thought this might be a good time for you to get your further statement on the record.

Do you have any statistics which show how often a low-bid carrier is selected to provide the essential air service?

Mr. McKinnon. Well, I think we pointed out in our testimony, Congressman, that over 60 percent of our competitive cases went to the low bidder. It went to somebody other than the low bidder, in 40 percent of the cases, which meant 60 percent went to the low bidder.

We try to judge service factors and scheduling. When we do certification of a commuter, we also look at their management expertise, financial abilities to sustain service as well as their compliance disposition.

So we just try to pick the best carrier to do the job. So I guess there is a little bit of a disagreement there.

Mr. Hammerschmidt. So about 60 percent go to the low bidder.

Mr. McKinnon. Yes; and there may just be a small difference between the next bid there.

Mr. Hammerschmidt. We heard about the high fares being charged by some of the commuter carriers at EAS points and I wonder to what extent this has forced people to drive their cars when they would otherwise prefer to fly. I wonder if you would comment on that.

Mr. McKinnon. Well, it probably has forced some people to drive to get better, lower fares at the hub airports.

What has happened, when the Congress passed this piece of legislation and developed the essential air service program, they said they were going to develop an essential air service program. Some people's interpretation is that it should be more than essential, and we have tried to fulfill the will of the Congress.

In the process, each route has been based on a cost-based basis and if the cost of flying a small number of passengers from one point to another is somewhat high, it is based on the costs involved and it does provide essential service. I guess therein comes some kind of debate you will probably get into later.

Some communities would like more than essential air service as defined by the Congress.

Mr. Hammerschmidt. Well, when CAB makes a carrier selection and decides on a particular subsidy rate, to what extent, if at all, will the Board examine the fares being proposed for the market? How much does that enter into it?

Mr. McKinnon. That enters into it but that is not the overwhelming criteria because we also look at how it affects the subsidy. But we find out that these fares are competitive basically with other commuter fares and the fares are not that far off from what other carriers would submit for the same basic route structure.

Mr. Hammerschmidt. In reviewing the per passenger subsidies for the essential air service program, I noticed a rather large variation. For example, for the lower 48 States the approximate range of subsidies for a passenger was between $5 and $235. The range in Alaska was even greater: between $26 and $563.

I wonder if you think some sort of a cap should be placed on per passenger subsidies for this program, and if so, how would you amend the law to accomplish this?

Mr. McKinnon. Well, sir, we don't feel there ought to be a cap. There are a lot of judgment factors. You have to analyze the route and the service.

Pat, I would like you to comment on that as well.

Mr. Murphy. Well, Congressman, we have thought about that. I guess our concern would be that if Congress were to draw a guideline or a cap based on any one criteria, that that criteria would have to be by its nature just too inflexible; that although we spend $700 a passenger to serve points in the Aleutian Islands, we might all sit down and agree that it is worthwhile since that is their only link to the outside world. But it might not be reasonable to spend a couple hundred dollars a passenger to serve Lewiston, Maine, as the Chairman pointed out.

We think if the Board is going to cap subsidy, it ought to be flexible to look at distance, subsidy per passenger, total subsidies, trends in traffic and a lot of variables, and we ought not have one fixed standard to limit the program.

Mr. Hammerschmidt. I just have one more question that bears on something the Chairman asked on cost-sharing by communities.

Where you have a community wanting to enter into voluntary cost sharing, do you think that we should write the law to allow them to do that if they want to volunteer these cost-sharing services?

Mr. McKinnon. We have not had anybody volunteer to do that yet.

Mr. Hammerschmidt. I thought there were some communities in Minnesota and elsewhere that did suggest that?

Mr. McKinnon. I am not aware of anybody who has put the money in.

Mr. Hammerschmidt. I think they have suggested 20 percent cost sharing.

Mr. Murphy. Congressman, I am aware of several communities that have offered reduced fees for the carriers such as landing fees and terminal space; but I am only aware of one incident where the community actually offered subsidy, and that community was one where the Board had discretion to bring them into the program or not. And they offered that to us as an incentive for us to bring them in. It turned out we did not bring them into the program. But we have no communities now that are sharing subsidies with the Board at all.

Mr. Hammerschmidt. It is not a big issue?

Mr. Murphy. No; we have asked a few but we have not gotten very much interest.

Mr. Hammerschmidt. Thank you very much.

Mr. Mineta. Mr. Anderson?

Mr. Anderson. Thank you, Mr. Chairman.

First I want to congratulate the Chairman and the witnesses for excellent presentations.

I want to follow up a bit on the question of cost sharing. I was a little disappointed when you said the proposals you have made have been shot down.

A lot of people in my area have left. I live in a pretty congested area and they left the area because they wanted to get away from the crowds, and the smog, and the noise, and the crime, and the congestion. And I said, "Well, why do you want to leave? We like it here." And they said, "Well, we want to get to a better life. And I think it is better out in these other areas." They said, "The schools are more intimate. They are not as crowded. Everyone knows everyone."

It would seem to me that there should be some way—well, it seems first unfair that if people would leave an area like mine to go out to a better life, to expect those of us who are staying where the life is not as good to have to pick up the tab. It seems to me there should be some reasonable sharing. I don't know whether it is 20 percent or 10 percent, but I would think that people who want this better life would be willing to contribute something toward it.

I hope that when you said that no one listened to your speech that you did not stop there. I would think it is something that needs exploring because I think it covers not just aviation but it covers many other types of cross subsidies you would have.

You also said that Congress had made a commitment through, I think you said, 1988, to do it and we do have a commitment. But what about after 1988—and we are almost there.

It seems to me we should be letting them know that, well, 1988, things have been changed and you may be expected to pick up some part of the tab.

Mr. McKINNON. You are going to have a very interesting decision come 1988. You have 130 communities affected. I guess that affects probably 100 Congressmen and you have a program of $50 million a year.

Mr. ANDERSON. You are saying we are doing it on political judgment rather than merit judgment?

Mr. McKINNON. I think political judgment will rule what happens in 1988, yes, sir.

Mr. ANDERSON. I hope that people like Norman Mineta and John Paul Hammerschmidt are around then to care for it.

Mr. McKINNON. I should respond that when you talk about the benefits of living in a rural life, which many people consider to be much superior to living in places like Washington or New York——

Mr. ANDERSON. Don't say San Jose.

Mr. McKINNON. I am not going to refer to southern California, I assure you of that.

But we have had some discussions with Members of the Senate about this situation. We are concerned in sparsely populated areas about air fares being slightly higher and we tried to explain that this is one of the problems. You get the low air fares like you pointed out, Mr. Anderson, in the suggested areas and when you move out in remote areas, you pay a little bit more, at least in air fares to live out there at least to connect into the congested areas, but you get the clean air and rural living and less crime.

So I think your point is a very valid point. I wish you would argue it for me elsewhere.

Mr. ANDERSON. Your testimony suggests that the EAS program has been successful in maintaining levels of service when measured by departures and in controlling subsidy costs. However, your testimony suggests that the program has not been as widely accepted by passengers as we would have liked.

You point out that in 1976 and 1982 the traffic declined to 75 percent of the EAS communities and I would like to have you explore some of the reasons for our loss of traffic.

You were referring to the San Joaquin Valley in your comments. And in the California hearing, you also refer to that, the subcommittee last summer found one explanation was the poor quality of service. Modesto, for example, had four of its six EAS carriers go bankrupt and they have to be replaced.

Is the California experience unique? In most EAS cities, has the Board been able to keep one EAS carrier or has there typically been a turnover in EAS carriers?

Mr. McKinnon. Generally, as I testified in my testimony, that only 15 percent had more than one turnover. The California experience has been unique and I think that is why Chairman Mineta had the hearings out there, because that is perhaps the one area that we have had the most problems with. We have had five bankruptcies out there of commuter carriers in that one area, and we have only had three throughout the rest of the Nation.

We have had some difficulties in scheduling out there and I think some of that is because of the fog out there in the San Joaquin Valley. There has been loss of traffic, as we pointed out, because of the Patco situation and the whole airline industry was affected in the 1981–82 period. It affected the commuters as well. So I think it is a little untypical in that central valley of California as compared to the rest of the Nation.

Have I answered all your questions on that, sir?

Mr. Anlerson. Well, a related problem in California was, I think, on the poor quality of service. I think the chairman reported that the EAS carrier at Modesto canceled flights without notice to the public.

The testimony at the hearing was that it also occurred in other cities in the Central Valley and as a result, passengers were unwilling to trust the EAS carriers.

Are these problems peculiar to California carriers? Is that something they seem to do in California?

Mr. McKinnon. I would like to have Pat Murphy address that.

Mr. Murphy. Mr. Chairman, I think that the problems in California of canceled flights were certainly more severe than anywhere else in the country. It is a giant ball of wax, if you will.

The financial condition of those carriers was weak for a lot of reasons. We have had bankruptcies, unreliable service in a way that we have not seen around the country other than in California. We think that we are now over the worst of that.

We have just put some new carriers in out there. Just a few weeks ago the Board selected replacement carriers at three communities, and we hope the worst is behind us and that things have stabilized out there now.

Mr. Anderson. What ability does the Board have to control the quality of service? Have there been cases in which the Board has replaced an EAS carrier in the middle of a contract because service is poor?

Mr. Murphy. If I can answer with California, we had a carrier out there, Air Chaparral, which we heard at the hearing, and Congressman Mineta and I can testify, their service was not good. As soon as that hearing was over, we went out and found a replacement carrier.

So we have had an experience with finding a replacement carrier. Generally we worked with the carrier and improved the service.

Mr. ANDERSON. I know you discussed this one earlier and I want to get at it from another direction.

Your testimony suggests that in some cities extensive subsidy has been required to support service which is of limited value because the city is close to hub airports. Passengers have the option of driving to that airport and you use an example in your testimony of Lewiston-Auburn, Maine, subsidy is over $140 per passenger and it is only 35 miles.

Do you believe that there are cities outside of the EAS program where subsidized service would produce more benefit per dollar of subsidy than we are getting from some of the cities in the program which is just a little different than your previous question?

Mr. MCKINNON. There are probably some, sir, that would not.

Mr. ANDERSON. In other words, you are not out looking for new ones. You are trying to satisfy the ones you already have.

Maybe some that you already have should not be getting it, but some outside should be.

Mr. MCKINNON. We agree with that. The GAO pointed that out and there should be flexibility in the EAS program for us to be able to more efficiently run the program which is to drop a few of the points that we are now required to subsidize. And that may be one or two.

We do look at these other points. They come to us under 419(b) but we have been fairly stingy with the money in that program.

Mr. ANDERSON. Do you see subsidy costs for essential air service programs increasing or decreasing over the next 4 years?

Mr. MCKINNON. The way we see them right now, Mr. Anderson, is that they will probably increase at the level of inflation. It is around $50 million a year now, and we think if the program remains on track and as currently run, will basically increase with inflation.

Mr. ANDERSON. Thank you, Mr. Chairman.

Mr. MINETA. Thank you, Mr. Anderson.

Mr. Packard.

Mr. PACKARD. Thank you, Mr. Chairman.

I understand as I read the testimony that the total cost of the EAS subsidy program is somewhere in the area of $50 million.

Mr. MCKINNON. Yes, sir.

Mr. PACKARD. How much do you project could be saved with the implementation of the GAO recommendation?

Mr. MCKINNON. I guess we really have not looked at it that way, Mr. Packard. We don't have that flexibility right now and we have been using our resources to try to implement the program as required by law.

Mr. PACKARD. You do believe, though, that it would render a savings?

Mr. MCKINNON. We think it would render a savings and render a more effectively run program too because it might allow us to pick up points that really are deserving and eliminate points that are not quite as deserving, in our judgment.

Mr. PACKARD. I take it from your comments that the objective, then, is not to save money but to provide a better service?

Mr. MCKINNON. Well, it is to provide the essential service. But we have some fairly tight people on the Board as far as allowing subsidies, so when we get into two or three carriers and we look at it, the subsidy per carrier becomes an important factor because it saves taxpayer dollars. So we do look at that.

Mr. PACKARD. I assume that the current carriers other than those that are being subsidized that are most affected now by this kind of policy would be the commuter services that are in place. Are there any other commuter services that are subsidized?

Mr. MCKINNON. Yes, sir. There are ones that we do subsidize. The ones that are not subsidized are those commuters that were in communities that did not have a certificated carrier at the time the deregulation act was passed.

These are generally very small communities and very small airplanes and they are very volatile and very fluid markets so people come and go out of them somewhat depending on the economies.

Mr. PACKARD. The large commuter services, what is their opinion about those that are not being subsidized?

Mr. MCKINNON. They are just happy to do everything they can to make a profit. Some commuters want to get out of the subsidy program because there are certain restrictions we put on them that affect their ability to make as much profit as they would like to.

Mr. PACKARD. Are there any small commuters that are being subsidized now which are still losing money?

Mr. MURPHY. Congressman, yes, I would say we do have a few commuters that are receiving subsidies and are losing money.

First of all, we don't subsidize the entire company. We subsidize them to serve particular routes, so that often we have seen where our subsidized routes are the only profitable portion of their system. But in total, they may be losing money.

Mr. PACKARD. How difficult is it under present regulations for commuters to drop a service area or a stop?

Mr. MCKINNON. That we are paying them for?

Mr. PACKARD. Yes.

Mr. MCKINNON. They have to provide us notice so we have time to get a replacement carrier in there.

Now, Pat is talking about some of these other routes that we subsidize in other communities and they serve other nonsubsidized communities, and we find out they are losing money because of some of these other communities. We do some jawboning to get them to drop the unprofitable areas because we want them to be able to service the areas we are paying subsidies on.

Mr. PACKARD. Their objective is to make a profit.

Are there regulations that require them to continue routes even though these routes may reduce their ability to make a profit?

Mr. MCKINNON. There is up to the point in time they notify us. Once they notify us, then we must pay them a hold-in subsidy. While we are looking for another carrier to replace them, that should cover their losses on that route, subject to audit of course.

Mr. PACKARD. I have no further questions, Mr. Chairman.

Mr. MINETA. Thank you.

Mr. Wolf.

Mr. Wolf. No questions.

Mr. Mineta. Mr. Chairman, let me ask one other question.

In terms of your criteria, is there a criteria for an airplane size that says below this number of seats on an airplane, you subsidy will not be provided at a point?

Mr. McKinnon. We require twin engines.

Mr. Mineta. But it is not determined by the number of seats? It could be a 9-seat twin engine or 16-seat twin engine.

Mr. McKinnon. What determines is the number of seats we are going to require them to deliver to that community on the daily basis.

Mr. Mineta. Not the number of seats on the airplane?

Mr. McKinnon. That is correct. It is somewhere between a 50 to 60 percent load factor, so you have the number of seats to the community, figuring the load factor of the aircraft, so it determines the efficient size of the aircraft to the community.

Mr. Mineta. Are there any twin engine aircraft with less than nine seats?

Mr. McKinnon. I understand there is a few but we don't do a lot of business with those.

Mr. Packard. Mr. Chairman, would you yield on that point for a moment?

Mr. Mineta. Sure.

Mr. Packard. To follow up with that question, is there a level of service that is normally required in order to qualify for subsidy in terms of personnel on board and in terms of the other services that are normally expected on a regular commercial airline?

Mr. McKinnon. Well, we have defined minimum essential air service as two flights a day, 5 days a week to service a community. So that would be the minimum.

What size airplane you use to provide that, if you use a nine-seat aircraft, the FAA has requirements on the number of flight attendants per seat and that type of thing. I don't think the nine-seat airplane has a head on it, for example, but most of these flights, Congressman, are really 1 hour or less in duration that we are speaking to to get these communities into a major hub.

There are exceptions to that, but that is the general rule.

Mr. Mineta. Mr. McKinnon, let me thank you on behalf of the subcommittee for your testimony and responses to the questions here today and for your leadership of the CAB and members.

Let me also compliment Mr. Murphy on the job he is doing. Having been on that flight that did not go from San Francisco to Modesto several months ago, we got a first glimpse at the difficulty of your job making air carrier determinations for central California. Again thank you Mr. Murphy and the staff at CAB for the great job they are doing in the EAS program.

Thank you very much.

Mr. McKinnon. Thank you, sir. They are doing a very fine job and we are proud of them.

Mr. Mineta. I would like to next call Mr. Oliver W. Krueger, Associate Director, Resources, Community and Economic Development Division of the U.S. General Accounting Office.

Mr. Krueger, please come forward.

The full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

Statement of Oliver W. Krueger, Associate Director, Resources, Community, and Economic Development Division, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee: We are here today at your request to discuss our May 18, 1983, report entitled "More Flexible Eligibility Criteria Could Enhance the Small Communities Essential Air Service Subsidy Program."

We found that the Civil Aeronautics Board (CAB) has implemented this program successfully, ensuring continued air service to the 555 small communities protected by the Airline Deregulation Act. However, the number of passengers using air service at the 104 subsidized communities decreased by over 50 percent since deregulation began in 1978. Unless the communities make progress toward achieving self-sustaining service, carriers are likely to abandon or substantially reduce service to most of the subsidized small communities when the program ends in 1988. We concluded in our report that the essential air service program could be more cost effective and have more long-term value if CAB had greater flexibility to help communities develop economically sound markets.

We will discuss the status of air service at communities receiving essential air service subsidies, and why Congress should consider midpoint changes to the eligibility criteria contained in the Airline Deregulation Act of 1978. We will also discuss what actions have been taken subsequent to our report and will include some updated information on the essential air service program.

INTRODUCTION

The Airline Deregulation Act of 1978 (Public Law 95-504) gave airlines gradual freedom from 40 years of detailed federal goverment regulation of the routes they could serve and the rates they could charge. With the advent of deregulation there was concern that small communities would suffer losses in air service because airlines would be able to move their resources to higher density markets. To address this concern, the Congress included in the act a program that would ensure continuous air service to small communities through a 10-year transition period ending in 1988.

Under the program, communities are guaranteed essential air service if they were listed on the routes of CAB certificated air carriers on the date of the act. CAB initially determined the minimum air service requirements for 555 small communities covered by this guarantee and, as of January 1, 1984, was paying airlines to provide service to 101 communities in the lower 48 states that would otherwise have had all service cancelled. In addition, the act provided CAB the discretion to designate communities that lost all air service in the 10 years preceding the act for subsidized service. The act listed criteria which CAB should consider in deciding whether to fund these "other eligible communities." These criteria consist of the communities' future traffic-generating potential, reasonableness of the subsidy costs, alternative transportation available, and isolation. Of the 137 communities eligible under this provision, as of January 1, 1984, CAB was subsidizing air service at three communities.

In fiscal year 1983, CAB paid $38 million to air carriers serving subsidized essential air service communities. In setting subsidy levels, CAB pays carriers an amount that covers their losses from serving subsidized communities plus a reasonable profit. Under the act CAB cannot discontinue subsidizing any community with an air service guarantee, even one that cannot realistically be expected to support air service when the subsidy program expires in 1988. CAB can, however, discontinue subsidies to the small communities being funded as a result of their loss of air service in the 10 years preceding the act. The act does not contain any provision for CAB to provide subsidies to help communities develop a more viable long-term market through enhanced schedules and/or services.

During our review, we discussed the program with CAB and state aviation officials, evaluated program data and visited 14 subsidized communities in 5 states to learn whether the act's eligibility criteria adequately and efficiently meet the air service needs of small communities. In addition, the National Association of State Aviation Officials helped us canvas aviation officials in all 50 states to obtain their views on the eligibility criteria.

NEED FOR MORE FLEXIBLE ELIGIBILITY CRITERIA

Officials described three types of communities, with varying air service needs, that may not be optimally served by the legislatively established criteria.

First, state and local aviation officials said that some communities—where air traffic is depressed because of poor air service or scheduling by the departing air carrier—might be able to develop an economically sound market if their subsidies were increased temporarily. Second, CAB program officials stated that certain communities receiving subsidized air service may not really require air service and are unlikely to ever develop unsubsidized air service as a result of either close proximity to a larger airport or continually low traffic. And third, aviation officials from five states indicated that some communities not eligible for the program had greater need for air service than subsidized communities.

PASSENGER DECLINES AT SUBSIDIZED COMMUNITIES

The number of passengers using air service at the 104 subsidized essential air service communities decreased by 55 percent since deregulation became effective. One reason for passenger reductions in the subsidized communities was that nationwide air traffic was depressed between 1980 and 1982 by a slow economy and flight restrictions caused by the air traffic controllers' strike. Also, market conditions changed since airline deregulation, and in many small communities passengers were faced with higher fares, smaller airplanes, inconvenient scheduling, unreliable service, and frequent change of carriers, all of which contributed to passenger declines. There are indications that nationwide air traffic increased during 1983 which could mean that downward passenger trends at subsidized communities may have reversed.

At the 14 communities we reviewed, boarding passengers declined by 57 percent between 1977 and 1982. Weekly departures were down 18 percent, while air fares to the communities' primary destination increased by 122 percent. In six communities we visited, subsidy costs were greater than the round trip air fare to the communities' primary destinations.

State and local aviation officials at 10 of the 14 communities we visited stated that passengers from the small communities were commuting to nearby larger airports where carriers offer better service and scheduling and lower air fares. The other four communities were beyond 100 miles of a larger airport, and passenger declines were attributed to both a lack of demand for air service and unreliable air carrier service.

CONCLUSIONS

We believe that the essential air service program could be more cost effective and have more long-term value if CAB were authorized to give communities the opportunity to develop an economically sound market during the remaining 5½ years of the transition period. If the act's eligibility criteria were more flexible, CAB could provide additional assistance now to communities which have the potential to develop viable self-supporting markets, but have been hampered by poor air service and scheduling in the past which have discouraged passengers. This increased assistance "up front" could be conditioned on the agreement by a community to forfeit its right to continued subsidies if after a specified time period the improved service and scheduling failed to increase the community's air traffic.

More flexible criteria could also be designed to permit the CAB to discontinue subsidies to communities that are making little use of the subsidized service being provided, are subsidized at very high per passenger cost, have either limited need for the service or will probably be unable to retain service after the subsidies end.

Finally, more flexible criteria might be designed to permit CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if states propose such replacements.

CAB officials recently told us and told you before we appeared that five communities submitted proposals to begin an experimental program of the character we recommended in our report. These communities propose to receive larger subsidies than they might otherwise receive under the program and use the extra funds to demonstrate that they can support regular air service after the subsidy program ends.

CAB officials stated that while there was some merit in these proposals, CAB would be assuming a definite risk in implementing these proposals without specific legislative approval.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Continuing the current essential air service subsidy program for its remaining life would allow a full 10-year transition period as the act intended, during which time the economy may improve and some markets may become able to support air service without a subsidy. However, continuing the program as originally designed may have limited long-term impact if many communities lose all air service when the program ends. The Congress needs to consider whether midpoint changes might be appropriate to enhance the long-term value of the program.

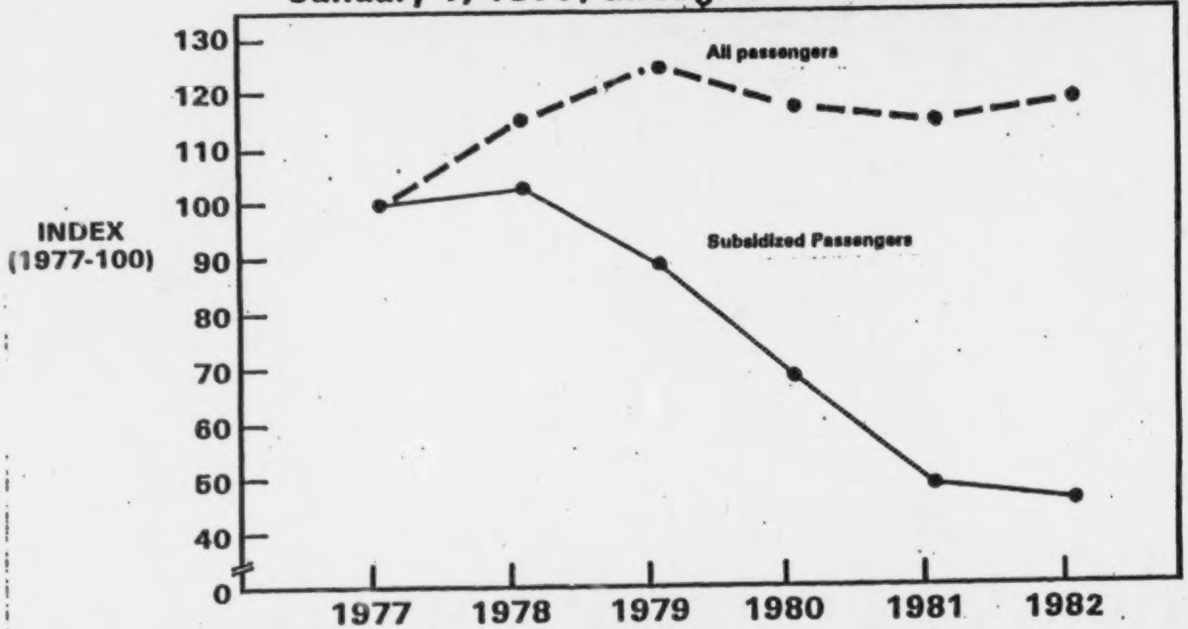
The Congress should consider changing program eligibility criteria to allow CAB greater flexibility to (1) temporarily increase some subsidies to improve flight schedules, services, and promotion where this can help develop a community's air service market to the point where it will no longer require subsidies and (2) discontinue subsidies to communities that are unlikely to be able to support air service after 1988. However, discontinuing subsidies to these communities during the 10-year transition period would represent a clear change in the guarantee provided by the 1978 act. In addition, the Congress may want to consider permitting CAB the flexibility to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if states propose such replacement.

ORGANIZATIONAL SETTING OF PROGRAM AFTER CAB SUNSETS

The other matter which we inquired into is the organizational setting of the essential air service program after the CAB goes out of existence on January 1, 1985. During our review, we did not find any compelling reason why the program should not be transferred to the Department of Transportation, as outlined in the legislation. We noted, however, that little progress had been made on how the program would be organized within and administered by DOT. We believe the principal issue in organizing the program within DOT will be to ensure the numerous decisions required by the program will be based solely on the merits of the case and serve the overall public interest. The importance of an appropriate organization for the program would be heightened if the Congress were to amend the act to permit greater flexibility in the administration of the program.

Mr. Chairman, this concludes my statement. We will be glad to respond to your questions.

Changes in Passengers Boarding Aircraft Subsidized Air Services and All Domestic Air Services January 1, 1977, through December 31, 1982



SOURCE: CAB passenger data reported by airlines through December 1982.

Passenger and Air Service Changes at 14 Subsidized Communities Before and After Airline Deregulation

Essential air service community	Passengers boarding aircraft[a]			Weekly departures[b]			Air fare to primary destination[b]			Primary destination
	1977	1982	Percent change	1977	1983	Percent change	1977	1983	Percent change	
Danville, Va.	6,018	886	-85	28	10	-64	$41	89	+117	Washington, D.C.
Hot Springs, Va.	3,863	2,644	-32	21	16	-24	41	88	+114	Washington, D.C.
Mankato, Minn.	4,680	1,482	-68	27	35	+20	28	62	+121	Minneapolis, Minn.
Worthington, Minn.	3,919	943	-76	27	12	-56	37	80	+116	Minneapolis, Minn.
Fairmont, Minn.	5,181	2,173	-58	27	30	+11	33	72	+118	Minneapolis, Minn.
Clinton, Iowa	5,947	1,776	-70	84	36	-57	32	69	+116	Chicago, Ill.
Ottumwa, Iowa	8,326	1,383	-83	26	23	-12	47	104	+121	Chicago, Ill.
Santa, Rosa, Calif.	15,008	2,373	-84	124	37	-70	22	39	+77	San Francisco, Calif.
Blythe, Calif.	1,747	449	-74	14	12	-14	31	67	+116	Los Angeles, Calif.
Merced, Calif.	17,226	3,843	-78	14	25	+79	16	48	+206	San Francisco, Calif.
Modesto, Calif.	50,020	21,229	-58	59	67	+14	25	42	+68	Los Angeles, Calif.
Stockton, Calif.	127,227	60,093	-53	87	80	-8	12	44	+267	San Francisco, Calif.
Elko, Nev.	11,007	10,169	-8	14	42	+200	40	88	+120	Reno, Nev.
Ely, Nev.	4,661	3,167	-32	14	42	+200	43	95	+121	Reno, Nev.
Average— 14 communities	18,916	8,044	-57	40	33	-18	$32	$71	+122	

[a] CAB passenger data reported by airlines.

[b] Based on Official Airline Guide as of October 1, 1977 and 1983.

Subsidy Cost Per Boarding Passenger Compared With One Round Trip Air Fare at 14 Subsidized Communities

Subsidy community	Subsidy per round trip[a]	Round trip air fare to primary destination[b]
Danville, Va.	$234	$178
Hot Springs, Va.	75	176
Mankato, Minn.	143	123
Fairmont, Minn.	143	144
Worthington, Minn.	143	160
Clinton, Iowa	250	138
Ottumwa, Iowa	250	208
Santa Rose, Calif.	71	78
Blythe, Calif.	836	134
Merced, Calif.	124	98
Modesto, Calif.	5	84
Stockton, Calif.	5	88
Ely, Nev.	86	190
Elko, Nev.	86	176

[a] Based on CAB 1982 passenger data.

[b] Based on Official Airline Guide as of October 1, 1983.

Mr. MINETA. Please proceed.

TESTIMONY OF OLIVER W. KRUEGER, ASSOCIATE DIRECTOR, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY JAYETTA HECKER, GROUP DIRECTOR, AND ROBERT TICE, SENIOR EVALUATOR

Mr. MINETA. Mr. Krueger, please go ahead and introduce your colleagues with you. Your full statement will be made a part of the record, so please proceed.

Mr. KRUEGER. Thank you, Mr. Chairman.

On my left is Mrs. Jayetta Hecker, group director, and on my right is Mr. Robert Tice, our senior evaluator on this particular job.

As you indicated, my statement has been placed for the record, and I will try to briefly summarize that statement. In addition, if you would like, we can submit a full copy of our report for the record. I don't know if you want the whole report.

Mr. MINETA. The report will also be made a part of the record,

Mr. KRUEGER. Thank you.

[The GAO report, "More Flexible Eligibility Criteria Could Enhance the Small Communities Essential Air Service Subsidy Program," may be found on page 413.]

Mr. KRUEGER. Mr. Chairman and members of the subcommittee, we are here today at your request to discuss our May 18, 1983, report entitled "More Flexible Eligibility Criteria Could Enhance the Small Communities' Essential Air Service Subsidy Program."

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Unless the communities make progress toward achieving self-sustaining service, carriers are likely to abandon or substantially reduce service to most of the subsidized small communities when the program ends in 1988.

We concluded in our report that the essential air service program could be more cost effective and have more long-term value if CAB had greater flexibility to help communities develop economically sound markets.

Under the program, communities are guaranteed essential air service if they were listed on the routes of CAB certificated air carriers on the date of the act. CAB initially determined the minimum air service requirements for 555 small communities covered by this guarantee and, as of January 1, 1984, was paying airlines to provide service to 101 communities in the lower 48 States that would otherwise have had all service canceled.

In addition, the act provided CAB the discretion to designate communities that lost all air service in the 10 years preceding the act for subsidized service. Of the 137 communities eligible under this provision, as of January 1, 1984, CAB was subsidizing air service at 3 communities.

In fiscal year 1983, CAB paid $38 million to air carriers serving subsidized essential air service communities. In setting subsidy levels, CAB pays carriers an amount that covers their losses from serving subsidized communities plus a reasonable profit.

Officials described three types of communities, with varying air service needs, that may not be optimally served by the legislatively established criteria.

First, State and local aviation officials said that some communities—where air traffic is depressed because of poor air service or scheduling by the departing air carrier—might be able to develop an economically sound market if their subsidies were increased temporarily.

Second, CAB program officials stated that certain communities receiving subsidized air service may not really require air service and are unlikely to ever develop unsubsidized air service as a result of either close proximity to a larger airport or continually low traffic.

And third, aviation officials from five States indicated that some communities not eligible for the program had greater need for air service than subsidized communities.

The number of passengers using air service at the 104 subsidized essential air service communities decreased by 55 percent since deregulation became effective. One reason for passenger reductions in the subsidized communities was that nationwide air traffic was depressed between 1980 and 1982 by a slow economy and flight restrictions caused by the air traffic controllers' strike.

Also, market conditions changed since airline deregulation, and in many small communities, passengers were faced with higher fares, smaller airplanes, inconvenient scheduling, unreliable service, and frequent change of carriers, all of which contributed to passenger declines.

There are indications that nationwide air traffic increased during 1983 which could mean that downward passenger trends at subsidized communities may have reversed.

At the 14 communities we reviewed, boarding passengers declined by 57 percent between 1977 and 1982. Weekly departures were down 18 percent, while air fares to the communities' primary destination increased by 122 percent.

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We believe that the essential air service program could be more cost effective and have more long-term value if CAB were authorized to give communities the opportunity to develop an economically sound market during the remaining 5½ years of the transition period.

If the act's eligibility criteria were more flexible, CAB could provide additional assistance now to communities which have the potential to develop viable self-supporting markets, but have been hampered by poor air service and scheduling in the past which have discouraged passengers.

This increased assistance up front could be conditioned on the agreement by a community to forfeit its right to continued subsidies if after a specified time period the improved service and scheduling failed to increase the community's air traffic.

More flexible criteria could also be designed to permit the CAB to discontinue subsidies to communities that are making little use of the subsidized service being provided, are subsidized at very high per passenger cost, have either limited need for the service or will probably be unable to retain service after the subsidies end.

Finally, more flexible criteria might be designed to permit CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if States propose such replacements.

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CAB officials stated that while there was some merit in these proposals, CAB would be assuming a definite risk in implementing these proposals without specific legislative approval.

Continuing the current essential air service subsidy program for its remaining life would allow a full 10-year transition period as the act intended, during which time the economy may improve and some markets may become able to support air service without a subsidy. However, continuing the program as originally designed may have limited long-term impact if many communities lose all air service when the program ends.

The Congress needs to consider whether midpoint changes might be appropriate to enhance the long-term value of the program.

The Congress should consider changing program eligibility criteria to allow CAB greater flexibility to, one, temporarily increase some subsidies to improve flight schedules, services, and promotion where this can help develop a community's air service market to the point where it will no longer require subsidies and, two, discontinue subsidies to communities that are unlikely to be able to support air service after 1988.

However, discontinuing subsidies to these communities during the 10-year transition period would represent a clear change in the guarantee provided by the 1978 act. In addition, the Congress may want to consider permitting CAB the flexibility to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if States propose such replacement.

The other matter which we inquired into is the organizational setting of the essential air service program after the CAB goes out of existence on January 1, 1985. During our review we did not find any compelling reason why the program should not be transferred to the Department of Transportation as outlined in the legislation.

We noted, however, that little progress had been made on how the program would be organized within and administered by DOT.

We believe the principal issue in organizing the program within DOT will be to insure the numerous decisions required by the program will be based solely on the merits of the case and serve the overall public interest. The importance of an appropriate organization for the program would be heightened if the Congress were to amend the act to permit greater flexibility in the administration of the program.

Mr. Chairman, this concludes my statement. We will be glad to respond to your questions.

Mr. MINETA. Thank you very much, Mr. Krueger.

Many of your suggestions for improving the EAS program would require a change in the law, particularly in the provisions guaranteeing essential air service for 10 years to all cities served by certificated carriers in 1978.

Suppose we decide against ending the guarantee before 1988. Do you have any suggestions for improvements in CAB's administration of the program, when you think they are doing a good job in carrying out the program established by the 1978 act?

Mr. KRUEGER. I think, based on our review, we are convinced that CAB has done an excellent job on getting the program started and running it very well for the last 4½ years.

We see some possible problems in changing the program before it goes to DOT. We are not sure whether the people at CAB are going to be transferring, so there could be some changes. But up to this point, we think the CAB has done a pretty good job.

Mr. MINETA. Your testimony suggests that temporary increases in subsidy to develop service in the hope that in the long run the public would support the service could result in service being provided without a subsidy.

What types of situations do you think this approach is likely to succeed? Are there many of these situations in the current EAS cities?

When I asked the Chairman about the up-front loading and whether or not it would be possible, he seemed to feel that those were exceptions rather than the rule.

Do you have any thoughts on that?

Mr. KRUEGER. I think, based on our look at the 14 communities where we did our audit work on this job, there were several—and I don't know of the exact number, four or five perhaps—where the communities felt this was feasible. And based on the records, we felt it would also be feasible.

So I guess in the end result, the Chairman is probably right that the overall number may be small. But we believe that if something is not done in these communities come 1988, they are not going to have any service.

Mr. MINETA. You also suggest that the CAB be given authority to discontinue subsidy where little use is being made of the service or where subsidy cost per passenger is high and where there is a limited need for the service.

Do you have any specific criteria in mind for cutoff points for consideration such as subsidy cost per passenger, proximity to other airports, and other factors that should be considered when making that decision?

Mr. **Krueger**. I think it would take some study on CAB or DOT's part to really come up with a definite criteria. But there is an existing criteria in the 419(b) part of the program which covers the community's traffic generating potential, the reasonableness of the subsidy, the alternative transportation that is available, and the isolation.

It is very conceivable that if you have got a community that is very much isolated that you would want to continue some service to that community regardless of what the subsidy would cost. You would not want to cut it off is what I am saying.

Mr. **Mineta**. What has been your impression of the quality of service provided under the program?

Many communities, of course, would prefer large jets to commuter aircraft, but beyond this, did you find that the EAS carriers generally provide reliable service and service of good quality with respect to matters such as baggage handling?

Mr. **Krueger**. I am sure when we talked to 14 communities, talking to 14 different people you would get different views.

There were several, I believe, that felt very satisfied with the services being provided by the carrier under the program. There were others that felt that the carrier was not satisfactory, was not living up to the agreements, and so forth.

So you have a mixed bag of the communities' views of how good the service was.

Mr. **Mineta**. In that instance, what leverage does the community have on getting the carrier to improve the level of service they find to be lacking?

Mr. **Krueger**. I am not really sure what leverage the community would have.

Bob, do you have any view on that?

Mr. **Tice**. Well, the carrier has a contract to live up to on the amount of essential air service as determined by CAB. The community could complain to CAB that the carrier is not providing the service. The community could not, itself, do anything to the carrier.

Mr. **Mineta**. Were there any instances of community complaints to CAB in which the CAB was not able to handle the request of the community?

Mr. **Krueger**. I think our general feeling is that CAB has done a pretty good job in following up on the complaints.

Mr. **Mineta**. I think that has been our impression, looking at this program.

Now, your testimony states that little progress has been made in determining how the program would be organized and administered within the Department of Transportation. Is that a current evaluation or an evaluation as of May 18, 1983, and do you have any suggestions as to how DOT should organize the program to prevent it from being politicized?

Mr. **Krueger**. That particular comment, I think, was taken word for word out of our May report. However, based on our current analysis, we can say it is still true. We don't really know what DOT is doing.

I think the Chairman of the CAB indicated he is not really too sure what they are up to, either.

We have a couple of reviews underway dealing with different aspects of airline deregulation. We have been unable to find out from DOT what it is they are planning on.

Mr. Mineta. Do you have any specific suggestions as to how they might organize the EAS program?

Mr. Krueger. Well, other than what I mentioned in my testimony, I think it has to be isolated to some extent because there are a lot of decisions that have to be made that should be made outside of the political arena as much as possible.

Mr. Mineta. Do you think it would be desirable to require State and local governments to make matching grants to the Federal section 419 subsidy?

Ms. Hecker. Well, we understand from the 1980 report that conceptually both the CAB and the DOT agreed that it was a good idea because the economic rationale for a continuing subsidy was that it benefited the community as a whole and that the community, therefore, ought to bear the costs through some general revenue funds of the community.

We do understand, however, that from further study the CAB has substantial doubts that the program can work. In one area, for example, they cite that many communities or States are barred from subsidizing private industry, and that it would, therefore, require an actual change in either State constitutions or city ordinances. So there are some complications, and as the Chairman of the CAB mentioned, in view of the overall objective established by the Congress in the 1978 legislation of providing continuing service, that it makes sense to continue the program as designed in 1978. But if there is any consideration of either extending it beyond 1988 or extending it to communities not covered by the 1978 legislation, then a strong case can be made that the communities are to share in that cost.

Mr. Mineta. Some State and local groups have been dissatisfied with an alleged lack of consultation by CAB before deciding EAS cases. Do you have any views as to whether there is adequate consultation between CAB and State and local governments?

Mr. Krueger. I think based on the 14 communities we looked at, they were generally satisfied with consultation by CAB. Do we have any specific problem?

Mr. Tice. No, we looked at how the process worked in other than the 14 communities. We found by and large that the communities' and the States' views were considered by CAB.

Mr. Mineta. Thank you; Mr. Wolf?

Mr. Wolf. No questions, sir.

Mr. Mineta. Mr. Packard.

Mr. Packard. Thank you, Mr. Chairman.

Has there been any determination or data collected to determine the cost per passenger to travel or drive to the nearest unsubsidized commuter service compared with the per passenger subsidy that is granted at the end of the subsidized era?

Mr. Krueger. I don't know whether that exact comparison has been made. Attached to my statement is a couple of appendixes. Appendix 3 shows the subsidy per round trip in the 14 communities we visited, and also shows the round trip air fare to the primary destinations in that community; Danville, Va., the subsidy per passenger is $234. The primary destination from Danville is Washington, D.C. I can drive to Danville a lot cheaper than $234.

Mr. **Packard**. So, there apparently has not been any real data collected to compare if, in fact, the subsidy program at the various airports are not exceeding what we could actually pay people to drive to another commuter service?

Mr. **Krueger**. That is one of the criteria that the CAB uses in coming up with every overall subsidy figure is the availability of alternatives. I am not sure they have done it, but it could be that limousine service might be cheaper, and they might suggest that the community do that.

Mr. **Packard**. In essence, then, there is the possibility that the subsidy program is really not the most cost effective way of solving the problem?

Mr. **Krueger**. That is your answer.

Mr. **Mineta**. It depends upon whether Blythe is in your area.

Mr. **Packard**. I spent some time in Blythe. It is not in my area.

Mr. **Krueger**. I did not use the Blythe example.

Mr. **Mineta**. $834 per passenger or whatever that figure was, is awfully high?

Mr. **Krueger**. That is down from last year's figure, which I think was over $1,000.

Mr. **Packard**. Maybe we ought to plug in an option to the passengers. We will pay you $400 to drive to San Diego or we will give you $800 if you fly.

Mr. **Krueger**. Or give you the $400 and you stay home.

I think you will recall, though, in the early stages of the program there were a lot of complaints that because of the poor service being provided by some of the air carriers, they did not show up that day to run the planes. They would run the passengers to the next point using limousines, and there were a lot of complaints at the time on that.

Mr. **Packard**. In a followup on that same concept, has there been any statistical data drawn that would compare the time lapse from driving to the nearest unsubsidized commuter service compared to the service at a subsidized airport in relation to a final destination like Washington?

Mr. **Tice**. We made some comparisons on our own in the 14 communities we visited, and certainly in communities like Santa Rosa, Calif., which I am not exactly sure, but it might be like 50 miles from San Francisco, there are limousine services available; that is a lot cheaper than the air fare.

Mr. **Packard**. I am not talking about the cost now. I am talking about the time lapse.

Mr. **Tice**. In the time, considering a person commuting to the airport and the en route trip and then getting into the city and his destination, the time is not that far off if you are talking about within 50 or 60 miles.

Mr. **Packard**. So, in essence, often we find where the service does not get the passenger to the destination quicker or cheaper—it is a service that they are providing for conveyence sake, in many cases?

Mr. Tice. Yes.

Mr. Packard. It would appear to me that this kind of data would help us to make determinations as the act comes up for reauthorization.

Mr. Krueger. I think, Mr. Congressman, if you go back to the basic purposes of the program which was to assure that those communities that had service at the time the act was passed would be guaranteed service. I think the program has done an excellent job in guaranteeing that. You compare that to those communities that did not have that guarantee, over 50 percent of those communities have lost all their service.

Mr. Packard. Again, the question can always be asked, is that a realistic and fruitful guarantee and that is not the question or the purpose of this hearing.

The cargo service is provided only in the State of Alaska. Has there been any data collected to see if, in fact, that cargo service would be justifiable in other parts of the other 48 States?

Mr. Krueger. I am not aware of any.

Mr. Packard. It was given in Alaska's case because it was provided originally and was being guaranteed or else because of distance, it was perceived it was needed?

Mr. Krueger. That is correct.

Mr. Packard. I don't have any further questions.

Mr. Mineta. Thank you.

Mr. Krueger, Ms. Hecker, and Mr. Tice, thank you very much for your presentation here, but more importantly for the work that you did on the May 18 report. Thank you very much for it.

Mr. Krueger. Thank you, sir.

Mr. Mineta. I would like to call our next panel, made up of the president of the National Association of State Aviation Officials, Mr. Sonny Najera, and the chairman of the Air Service Policy Council at NASAO, Mr. John Auer.

The full text of our prepared statement will appear in the record at this point.

[Statement referred to follows:]

Statement of the National Association of State Aviation Officials; Mr. Sonny Najera, President; Mr. John R. Auer, Chairman, Air Service Policy Council

STATEMENT BY MR. NAJERA

Mr. Chairman; members of the subcommittee: I am Sonny Najera, Director of the Arizona Division of Aeronautics, and president of the National Association of State Aviation Officials.

With me is John Auer, Director of the Nebraska Department of Aeronautics, and Chairman of our NASAO Air Service Policy Council.

We wish to thank the committee for this opportunity to testify on the Essential Air Service provisions of the Airline Deregulation Act, and particularly, to convey our concerns as to how this program may be affected with the Sunset of the CAB.

As you know, the EAS provisions in the Deregulation act mandated state involvement in nine different areas. As the association representing state aviation interests, NASAO has been working with the EAS program and its problems from the beginning. Most of this work has been centered in our Air Service Policy Council, and Mr. Auer has served with this group from the beginning. He has been responsible for several surveys over the last four-and-a-half years to determine how the Act has been working at the State level, and what problems and opportunities our members believe should be addressed. Our most recent discussions of the essential air service program were held last September during our Annual Meeting, and involved the majority of our state members.

The main thrust of our testimony today will be to make the case that we feel specific sunset legislation is needed—even if only in the form of amendments to the existing Act. We believe there is need for some explicit definitions of policies, including clarifications of congressional intent, and definitions of permissable practices to carry out that intent, regarding the Essential Air Service program.

We do not believe that this program should be transferred to a successor to the CAB just by letting the present Act run its course. This would permit a continuation of present policies and practices—possibly by the same people who are now responsible for them—and we do not agree that those policies are doing the job that you, the Congress, and we, as representatives of the aviation user public, expected with the passage of the Deregulation Act.

With that, I will ask Mr. Auer to present specifics.

STATEMENT BY MR. AUER

Thank you, Mr. Najera. Mr. Chairman and members of the subcommittee: I will preface my remarks by pointing out that, although we, of the states, are somewhat critical of the 419 subsidy program, which is really the heart of the Essential Air Service program, we do also appreciate that many good things have come about with deregulation. And, even though we feel that the 419 program leaves much to be desired, we also realize that continuation of the 406 program would, by this time, have resulted in subsidy costs many times those of the present 419 costs. Therefore, we hope you will take our comments in the light of ways to salvage the 419 program and make it work for the remaining years that it is scheduled to be in effect.

I am sure you know that many of the communities receiving air service under the Essential Air Service program have lost enplanements since deregulation.

We believe that several factors have caused this. Not the least of these is the quality of service being provided under the Section 419 program.

According to a General Accounting Office report of May 18, 1983,[1] "The number of passengers using air service at the 88 subsidized essential air service communities decreased by 50 percent since deregulation became effective. . .

"Small communities in the essential air service subsidy program experienced a transition since airline deregulation from larger carriers to smaller regional carriers. Larger carriers abandoned the small communities for more profitable markets. Some essential air service communities . . . experienced problems with the transition to regional carriers, and air service became unreliable, with frequent scheduling changes and fare increases. Many small community passengers were attracted to larger nearby airports for better service and scheduling, larger airplanes, and air fares."

We agree with this assessment by the General Accounting Office and with their prognosis that "Unless circumstances change, carriers are likely to drop or substantially reduce service to the subsidized communities when the program ends in 1988."

We would make one clarification, however: it is not the communities that receive subsidy. The airline receives the subsidy dollars in return for providing service to a community.

We suggest two specific policy areas for clarification:

First, methods of selecting applicants to receive subsidy.

The CAB, through their auditing procedures, are supposed to weed out applicants for 419 subsidy who were not qualified, for whatever reason, to operate an airline. This does not always occur. Time after time, carriers have been allowed to start up service, only to fail quickly. Only after failure, did it become obvious that the airline had never had either the money or the expertise to make it through even the start-up process. These frequent failures led to a loss of public confidence, and, as could be expected, a resultant drop in enplanements. Instead of the stimulation of the markets which advocates of commuter service had envisioned, we now find market after market depressed to the point where it is doubtful they will ever return to pre-deregulation levels.

A second area for clarification—particularly of congressional intent—concerns the CAB's procedure in doling out subsidy under the Section 419 program. For all practical purposes, a low-bid system has evolved. Then the low bidder is cut further in a bargaining session which the Board calls a "Rate Conference". The net result is usually a subsidy rate which has the new carrier in financial difficulty from the first day of service. If, in spite of this, the carrier should hang on for a year, it is then hit with a request to rebid at a still lower subsidy rate. We include, as an appendix to this statement, actual letters from the CAB to subsidy airlines in both Mississippi and Iowa asking for these lower rebids and, in the case of Mississippi, actually suggesting that service be cut in order to enable a lower rate!

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[1] GAO report RCED-83-97, "More Flexible Eligibility Criteria Could Enhance The Small Communities Essential Air Service Subsidy Program."

The low-bid policy, as you may imagine, in many cases has provided a quality of air service that insures drastic erosion of passengers in the markets being served. In the case of my state, Nebraska, it meant provision of service in old, badly run down Beech 99s by a carrier with critical financial problems who was more concerned with staying alive financially than in providing reliable, air service. As a result, the linear route serving Chadron, Alliance, and Sidney, Nebraska, saw enplanements drop from nearly 9,000, in 1968—the best year of previous service by Frontier—to 8,000 in 1979, when Frontier pulled out, to less than 2,500 projected for 1983. Another Nebraska city—Columbus—which averaged about 250 monthly enplanements with Frontier, has been averaging less than 20 a month with replacement commuter service.

The problem as we see it is that the CAB views the Essential Air Service program as a short-term effort designed only to maintain some level of air service until the whole program expires in 1988. The present law is open to this interpretation. However, we believe the intent of Congress in creating the program was to assist the communities through a transition period by buying time for them to become self-sufficient. What is needed is a directive from Congress that the program be made developmental in scope.

Unless these markets are stimulated by the use of better (e.g., larger, more comfortable) airplanes, and unless the carriers are provided with promotional expertise and funding, most present EAS communities will lose all scheduled air service in 1988.

There are presently no incentives for the Section 419 air carriers themselves to promote and stimulate a market because, under the present low-bid, re-bid procedures, there is no guarantee they will be able to continue to serve any given market from year to year.

Further, although the CAB will provide funds for promotion when setting service payment rates, it does nothing to see that the air carriers do any promotional work in the cities they serve. In fact, going back to the carrier selection process, it may not be in the best interests of some of the carriers selected to stimulate a market through promotion because they lack the resources to purchase additional equipment or hire the additional personnel required to meet a higher service level.

Our next recommendation is critical—and could be controversial. Nevertheless, we feel that unles it is done, the 419 program is doomed to complete failure between now and 1988:

We believe that all EAS communities should be reevaluated. Having gone through the initial evaluations with communities in our individual states, and knowing the tremendous investments in time, manpower, and money these involved, we do not make this recommendation lightly.

However, we do believe that those communities which have had good service, but have not responded with patronage, should be dropped from the program. Note that these might well prove to be communities which have reasonable access to the national air transportation system through highways, inter-city buses, etc. If so, the alternate mode has probably become de facto replacement for air service.

The 419 funding should then be concentrated in those communities which have had poor service—and it should be continued at a higher rate of subsidy to stimulate these markets for a fair test of their ability to become self-sufficient.

Those communities that are more or less "isolated" from the national system, should have subsidy channeled to provide whatever is needed: more frequent service; more seats; better choice of access hubs; etc.

There must also be recognition that some communities simply do not have the population to ever support unsubsidized air service.

This is not an easy recommendation to put before you. In nearly every state, our members are charged with promoting air commerce. But we do have to face the reality that here are some communities that just do not have enough prospective customers to ever be profitable for any level of scheduled airline service. If they are to continue to have access to the national system, they will have to continue to be subsidized.

We have introduced a couple of loose terms: "good" service and "poor" service. We will quickly point out that what may be termed "good service" by one state's standards may not be in another state. Rather then get into an exercise in semantics, however, our recommendation is that the evaluation to be made in those markets should determine what kind of air service is needed to stimulate the market. It may be type of aircraft being used; it may be frequency of service; it may be numbers of seats; it may be connecting times with major carriers at the hubs; it may be the selection of the hubs of interest to each community.

If a community has had favorable service on most of these counts, it has probably had "good" service.

If few, or none, of those favorable factors have been present in the service picture, it has had "poor" service.

Note that in the case of a "poor" service evaluation, we do not believe that merely throwing money at the problem is going to resolve it. The service offered under the program should be specifically evaluated as to what is good or bad about it. Then the federal agency—whether the DOT or some other choice—should either replace the air carrier, or require it to provide the type of service needed to meet the requirements of that community.

We also believe that, in the reevaluation process, the states should have a voice. The states should also be given the task of monitoring any replacement or continuing carrier performance. The States are closer to the problems—particularly since the CAB has cut back on its structure of Regional Offices. Given access to the airline's data, a State could react quickly to any slippage in performance. If this could be mandated immediately, the states should be able to provide informed continuity to this aspect of the program during the transition of administration to the DOT.

This would also be consistent with the past statements of congressional intent: As we mentioned, in the Deregulation Act itself, the congress inserted in several places the phrase, "after considering the views of any interested community and the State Agency of the State where such community is located."

(Incidentally, it is the opinion of most states that, although they have had the opportunity to present their views in the past, too little attention has been paid to them. Our members cite many instances where they warned the CAB staff of the inadequacies of a particular carrier the staff was about to select, but were ignored to the subsequent embarrasment of the Board and the ultimate inconvenience to the public.)

Although there could be questions as to just how ruthless the results of the reevaluations should be under our proposal, we believe we are in close agreement with the conclusions and recommendations reached by the General Accounting Office in their report of May 18, 1983:

"CAB interprets its responsibility as setting air service levels at the minimum to ensure that small communities have access to the Nation's air transportation system. The act contains no provisions that the subsidies should help communities develop self-sustaining air service markets. Also, CAB cannot discontinue subsidies to communities that cannot support air service. Under these precepts, CAB has successfully maintained essential air service to small communities protected by the act. However, despite the continuation of air service, our analysis of the 88 communities showed that most . . . are not making progress toward attaining self-sustaining service in a free market environment and the number of air passengers decreased by 50 percent since deregulation. If traffic does not increase, carriers are likely to discontinue or substantially reduce service to most small communities when the subsidy program ends."

The GAO report also says, "We believe that the essential air service program can be more cost effective and have more long-term value if CAB were authorized to develop an economically sound market during the remaining 6 years [N.B., now five years] of the transition period. If the act's eligibility criteria were more flexible, CAB could discontinue subsidies to communities that probably will be unable to retain service after the subsidies end. Or, if a community has the potential to be a viable market, but poor air service and scheduling in the past has discouraged passengers, then CAB could improve a community's competitive position with temporary subsidy increases. More flexible eligibility criteria could also allow CAB to assist communities for which States can show greater demonstrated air service needs than some currently subsidized communities."

The General Accounting Office also offers three recommendations for possible congressional consideration:

"Authorize the CAB to:

"Temporarily increase some subsidies to help develop a community's air service market to where it no longer requires subsidies;

"Discontinue subsidies to communities that are unlikely to support air service after 1988 because they are close enough to nearby larger airports offering better air service or are too small and isolated to generate enough traffic for self-sufficient service; and

"Replace lower priority essential air service communities with communities that have demonstrated a greater air service need."

The next point we would like to cover, although basically part of the "big" picture of predatory fares[2] and inequities in fare structures, does have a direct effect on the 419 subsidy program. We believe that any subsidy supplied to develop a market should be such that fares can be charged comparable to those available between larger markets. Reasonable fares are essential to the revitalization of the essential air service markets.

In this regard, we suggest it is time to change the terminology: if, instead of "subsidies," we think in terms of "financial operating assistance," similar to that provided under the mass transit program, we may come to a more equitable treatment of the fares charged by airlines under the essential air service program.

High fares being charged in the small non-competitive markets, characteristic of EAS communities, are, we believe, a major cause in the drop in enplanements. Note that these usually occur after a replacement carrier has taken over. Past experience shows that the CAB staff exacerbates the problem by their determination to keep the cost of the 419 subsidy low. Even when a replacement commuter suggests fares less than the normal Standard Industry Fare Level plus 30 percent in its proposal to provide service, the Board staff applies pressure to keep fares up. This shortsighted attitude drives potential passengers back to their automobiles and perpetuates the need for subsidy. A more liberal use of financial operating assistance in the development stage would permit lower fares and, in many markets, produce the higher load factors. This could, in the long run, reduce or eliminate the need for such assistance.

On the "big" picture level, heavy competition in the major markets has kept fares down below pre-Deregulation levels, magnifying the disparity in cost-per-mile fares, and creating the feeling in the small communities that they are being discriminated against.

Another factor frequently cited as a cause of passenger resistance to small airlines is that of airplane size. We certainly do not argue for the return of jet aircraft service to a community that may enplane only two or three passengers a day. But we do believe that service in properly sized aircraft, with good load factors, can be profitable at reasonable fares. As evidence we present, following page, a table supplied by our member, The Texas Aeronautics Commission, showing results in that state when smaller aircraft began to substitute for larger ones with major increases in frequency (which would not, of course, have been economically feasible for the operator of DC-9s and CV-600 aircraft which were replaced).

Examples of market improvement between city pairs in Texas due in large part to the increased frequencies provided by smaller commuter or regional air carriers:

STUDY COMPARISON ON EMPLANEMENTS IN TEXAS

Market	O&D 1976	Daily frequency	Available seats	O&D 1982	Daily frequency	Available seats
Abilene-DFW	(T1) 56,390	4 round trips	516	(FC) 90,723	17 round trips	646
San Angelo-DFW	(T1) 41,520	3 round trips	510	(XO) 81,423	14 round trips	504
Wichita Falls-DFW	(T1) 57,450	8 round trips	1,002	(XO&HY) 106,388.	30 round trips	1,200
Tyler-DFW	(T1) 7,940	4 round trips	464	(HY) 46,969	12 round trips	536

Abbreviations list: TI—Texas International Airlines; FC—Chaparral Airlines; HY—Metroflight (Metro) Airlines; XO—Rio Airways; O&D—Origin and destination passengers.

There must, of course, be a definition of "properly sized" aircraft. On the basis of experience, it appears that an operator of aircraft with less than a 15-passenger capacity has little chance of operating at a profit. Breakeven load factors run about 65 percent for these small aircraft when administrative overhead and other factors are figured in. With a 10 passenger aircraft, there would be only 3.5 seats as profitmakers. This is cutting the margin quite thin, especially when you factor in directional traffic flows and seasonal peaks and valleys. The financial operating assistance level for a carrier must be sufficient to permit aircraft that at least give the operator a chance to turn the service profitable.

In summary, we believe Congress has three options that should be considered in conjunction with CAB sunset legislation:

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[2] We define a "predatory fare" as one that has an airline operating a route at a loss in order to gain or hold a competitive advantage.

(1) It can go along with, and reinforce, the CAB's belief that there was no intent in the Deregulation Act to help develop small community markets. This option will be exercised if Congress does nothing to change the Essential Air Service provisions in the Act. The net result of this, we believe, will be to guarantee the demise of scheduled air service to small communities in 1988.

(2) An alternative is for Congress to make it clear to the Department of Transportation that, when it takes over the 419 program next year, DOT will be expected to provide the funding and the assistance necessary to provide development in small community markets. This can be accomplished, we believe, with minor amendments to the Deregulation Act. It should be noted that the operating assistance funds required to accomplish this would be negligible compared to what we now spend to support urban transportation systems.

(3) Adopting the previous alternative will require re-examination of essential air service criteria, and should include a reevaluation of all communities being served. In addition to historic enplanement data, the new criteria should include: proximity to other scheduled air service; recent enplanements and quality of service factors; recent socio/economic developments in a community that may have changed either the need and/or the essentiality of air service.

Undoubtedly, under this reexamination some communities now receiving subsidized service will ot qualify. Whether service to such communities should continue to be funded through 1988 or be terminated earlier must be specifically decided by Congress. We would recommend that the 1988 date be maintained, but that the law make perfectly clear that this will be the absolute deadline for "losing" communities unless a mitigating factor such as isolation is conclusively proven. Identifying communities destined for cut-off in 1988 may well stimulate some of them to activity which might help forestall a cut-off.

On the other hand, if it is decided to terminate subsidized air service to some communities prior to 1988, Congress might also consider some form of subsidy for utilizing ground transportation directly to the terminal of the nearest connecting point.

At this point, I will go back to Mr. Najera, for some additional thoughts we, the states, believe should be considered in formulating plans for the sunset of the CAB.

MR. NAJERA

In addition to the Essential Air Service program, there are several other areas that we believe any CAB Sunset Bill should address. These are areas that are left unclear or ambiguous in the Deregulation Act.

(1) Fitness determinations.—These are required for commuter or regional airlines providing essential air service. While it is clear under the Act that the DOT will make fitness determinations for airlines providing foreign air transportation, it is not clear for airlines in domestic service. Incidentally, many state governments make special provisions for airlines certificated by the CAB, including special tax treatments. If all certification is ended, the status of airlines under these state statutes will be unclear.

(2) Consumer protection.—There is no explicit transfer of this function in the Deregulation Act. There is now no single specific statutory authority for the CAB to take action involving consumer protection. They have in the past used various authorities for consumer protection. This has included protection for charter travelers, liability insurance limits for the airlines, compensation for passengers who are bumped, and for baggage liability. The exact status of these rules after 1985 and, therefore, the consumer protection function is unclear.

(3) Passenger contracts.—Past practice has allowed airlines to incorporate parts of their passenger contracts by reference on the ticket. The CAB has been the authority to oversee use of this practice. A rule recently adopted by the CAB preempts the States from dictating whether a term may be incorporated by reference, and the type of notice required to do it. But, we believe, somebody will have to lay down such ground rules for the future.

(4) Unfair and Deceptive Practices Jurisdiction.—The FTC could probably assume jurisdiction over unfair an deceptive practices, as well as unfair competition. That, however, is not specified in the Act.

(5) Information Collection.—The CAB has been responsible for collecting large amounts of information on price, service, and traffic. Much of this is vitally needed by other agencies, the industry, and the States for planning purposes including both Federal and State tax income projections. This function is not explicitly transferred in the Act, and we, among other groups, are concerned about the possible loss of the data needed.

(6) Transition Timetable.—Although the Deregulation Act sets the date for the final demise of the CAB, it does not specify any transition milestones for transferring CAB functions to other agencies. We believe this is a grave oversight.

The CAB is now limping along in a mortally wounded state. They have not been able to retain or replace critical staff. There have been situations where they were not able to process the remaining paperwork that allows those dependent on them to operate efficiently. We believe it essential that those positions within the CAB that will be transferred to other agencies be identified immediately, and that transfer plans be announced.

If this cannot be legislated in a very short-term time frame, then we believe it should at least be communicated to the affected agencies in some form of congressional request for compliance.

This concludes our testimony and recommendations Mr. Chairman. We will be pleased to try to answer any questions you may have.

APPENDIX A

[The following has been transcribed for legibility only from copy of an original letter date stamped 17 June 1983: William C. Boyd, Chief, Essential Air Services Division I, Bureau of Domestic Aviation, Civil Aeronautics Board, to Mr. Norman E. McInnis, Royale Airlines, Inc.]

Mr. NORMAN E. MCINNIS,
Royale Airlines, Inc.,
Shreveport Regional Airport, Shreveport, La.

DEAR MR. MCINNIS: As you are aware, Royale was selected by Order 62-1-91, dated January 20, 1982, to provide essential air service to Natchez, Mississippi, with subsidy for the two-year period beginning October 26, 1981. The subsidy rate for the second year expires October 25, 1983.

This letter is to inquire whether Royale would like to continue serving Natchez after the current rate period and, if so, to request the carrier to submit service/subsidy options for a new rate period.

Royale is providing Natchez with two round trips each weekday and over the weekend period to New Orleans using 19-seat Bandeirante aircraft. One round trip is nonstop and one is one-stop via Jackson, Mississippi. The flights provide Natchez with 27 seats per day outbound and inbound to New Orleans, assuming that one-half of the seats on the one round trip via Jackson are preempted by Jackson passengers.

Based on the 1982 traffic level of 2,693 O&D passengers at Natchez, approximately 8 O&D passengers per day, the capacity offered by Royale is substantially greater than necessary to accommodate the current traffic at load factors consistent with the Board's essential air service policies. As the result, the subsidy cost for Royale's service is about $140 per passenger based on the current annual compensation of $393,495 and the 1982 traffic. In view of this, we would like to examine the possibility of service proposals that more closely match capacity to traffic.

Since the community is currently receiving the minimum essential air service requirement of two round trips on weekdays and over the weekend period, the frequency cannot be reduced. One alternative to reduce the expense of operations would be to reduce capacity by using a smaller aircraft. Per the current traffic of 8 O&D passengers per day, two round trips with small aircraft, i.e., six- to eight-seat aircraft, could accommodate the community's air service needs at an acceptable load factor. Another alternative would be to provide service only to Jackson, Mississippi, rather than to New Orleans.

We would appreciate your advising us as to whether or not Royale is interested in continuing to serve Natchez. If so, would you submit proposals, including subsidy requests, for the current service pattern and for any alternative service pattern with smaller aircraft; or to an alternative hub as discussed above that Royale would be willing and able to provide.

We will review any proposals Royale submits and schedule a rate conference at a mutually agreeable time. If we reach an agreement on the service level and amount of subsidy, we will send this matter to the Board. If the Board determines that the service level and subsidy are appropriate, it will issue an order to show cause tentatively selecting Royale to continue service for another term. If there are no objections to that order, the Board will then issue a final order.

If other carriers respond to the show cause order with reasonable alternative proposals to provide similar service for less compensation or better service for the same compensation, we would begin carrier selection procedures. We would hold rate conferences with the responding carriers, and Royale would be given an opportunity to modify its proposal and participate in a second rate conference.

If Royale is not interested in continuing to serve Natchez beyond October 25, it should file notice at least 90 days prior to that date so the Board can seek replacement service. Royale would be required to continue serving Natchez until replacement service begins.

Since we want to address this matter as soon as possible, we request that you respond by July 15, 1983. If you have any questions, please contact John Quay of my staff at 202-673-5354.

Sincerely,

WILLIAM C. BOYD,
Chief, Essential Air Services Division I,
Bureau of Domestic Aviation.

APPENDIX B

STATE OF NEBRASKA,
November 14, 1983.

JOHN COLEMAN,
Director, Bureau of Domestic Aviation,
Civil Aeronautics Board,
Washington, D.C.

DEAR JOHN: Please consider this a follow on to my September 26 letter. Recent developments in Iowa, which were brought to my attention by Al Hoover, are further examples of Board actions which perpetuate the "low bid" perception which you object to.

First, let me draw your attention to attachment #1 and its enclosure which was circulated to all State Aviation Directors in an attempt to gather good examples of the EAS program at work. This was no sooner in the mail than Al Hoover called to advise me of letters from your EAS Division (attachments No. 2 and No. 3) which are obviously intended to trigger a subsidy reduction at Mason City and Fort Dodge.

If gains of 114 percent at Mason City and 36 percent at Fort Dodge in the first nine months of replacement service do not justify a continuation of the experiment, it is plain that all such experiments are doomed to failure.

In my mind these two communities are examples of what can be done when a good carrier supplying reliable, frequent service replaces a carrier which has been supplying marginal service. If enplanements had not responded to the new level of service I would be among the first to suggest a curtailment, but to pull the rug out from under them after such a fine response would be grossly unfair.

Sincerely,

JOHN R. AUER,
Director, Department of Aeronautics.

STATE OF NEBRASKA,
November 2, 1983.

JOE MASON,
Executive Vice President, National Association of State Aviation Officials, Washington, D.C.

DEAR JOE: The attached "success story" which Al Hoover passed along to me, is an excellent example of the type of thing we should have available to refer to in preparing testimony for Congressional hearings. It is an unrefutable example of the affect good service has on enplanements. We, of course, are all familiar with the affect of bad service but have never documented the antithesis.

Would you please circulate a request to all members to supply me with similar examples. I need the specifics of such cases—increases in enplanements that occurred as an obvious result of improvements in reliability, airplane type, frequency, promotion, etc. I can't use generalities—must have numbers.

Thanks,

Sincerely,

JOHN R. AUER,
Director, Department of Aeronautics.

P.S. I have received 23 replies so far to our previous Action Call.

Both Mason City and Fort Dodge had a devastating reduction in enplanements from 1978 through 1982. This was brought on by several reasons. Deregulation allowed a reluctant carrier to start proceeding to stop serving these cities. The economy caused fares to increase and the controllers strike allowed Ozark to reduce service to one flight per day departing at an inconvenient time for most air travelers. Most of the prospective passengers found alternatives to reach their destinations. The trip by automobile to Des Moines and Minneapolis to make connections became a necessary habit for the air traveling public in these two communities. Ridership dropped from 19,271 enplanements at Mason City and 9,668 at Fort Dodge in 1978 to 3,077 at Mason City and 3,532 at Fort Dodge.

Since Ozark has been replaced by American Central and Mesaba in Mason City and by Great Lakes and Mesaba in Fort Dodge ridership in the first nine months of 1983 has increased remarkably. Mason City with ten flights per day has had 5,088 enplanements and Fort Dodge with seven flights per day has had 3,601. The projected 1983 figure for Mason City is 6,588 and Fort Dodge is 4,802 which is a 57% increase in enplanements over the 1982 figures.

Mason City and Fort Dodge are recovering well from a four year decline in enplanements because of the more frequent and reliable departures. Deregulation, although very disruptive at the onset, has helped these communities receive better service and has afforded the flying public a wider choice of air service in the respective communities.

ENPLANEMENTS

	Year total			Projected year total, 1983
	1978	1982	Thru September 1983	
Fort Dodge	9,668	3,532	3,601	4,802
Mason	19,271	3,077	5,088	6,588

CIVIL AERONAUTICS BOARD,
Washington, D.C., November 4, 1983.

Mr. AL HOOVER,
Iowa Department of Transportation, Division of Aeronautics, Municipal Airport, Des Moines, Iowa

DEAR MR. HOOVER: By Order 82-8-135, the Board designated Mesaba Airlines and American Central Airlines to provide essential air service at Mason City and established subsidy rates for the first year of the carriers' operations. These rates will expire after December 14, 1983.

Mesaba is currently providing two round trips each weekday and over the weekend period over a Minneapolis-Mason City-Fort Dodge-Omaha linear routing with 15-passenger Beech 99 aircraft. American Central is providing two nonstop round trips each weekday and weekend period to Chicago with 18-passenger Bandeirante aircraft.

In selecting a combination of Mesaba and American Central to provide essential air service to Mason City, the Board noted that the amounts of subsidy being paid to the carriers were high, especially in view of the low number of enplanements forecast by the carriers for the first year. However, it selected Mesaba and American Central to provide the service because it believed the community deserved a one-year test period to demonstrate its traffic generating potential and its need for the service. The Board at that time indicated that if traffic did not respond during the first year it would consider amending the essential air service determination and examine ways of reducing the subsidy.

During the first nine months of 1983, American Central and Mesaba enplaned a total of 4,932 passengers at Mason City, an average of 21 passengers per day based on service six days per week. The service the carriers were selected to provide was based on the current essential air service determination which assumes an average of at least 40 enplanements per day.

In view of this, we have asked Mesaba and American Central to submit proposals to provide essential air service at Mason City based on the level of service they are now providing, and in addition, have asked the carriers to submit any alternate proposals which could result in lesser subsidy payments. Specifically, we have asked American Central for a proposal to provide service to Chicago with one or two intermediate stops and Mesaba for a proposal offering service only to Minneapolis.

Once we complete our negotiations with the carriers we will advise the civic representatives and the state of the service/subsidy alternatives and allow them to submit comments on the various options. After considering all of the available service/subsidy options and the views of all parties, staff will submit a recommendation to the Board on the level of service and subsidy that it feels should be approved for the next year, and the Board will make the final decision.

If you have any questions on this matter, please contact me at (202) 673-5405 or John McCamant of my staff at (202) 673-5348.

Sincerely,

JOHN L. QUAY
(For William C. Boyd, Chief,
Essential Air Services Division I,
Bureau of Domestic Aviation.)

CIVIL AERONAUTICS BOARD,
Washington, D.C., November 4, 1983.

Mr. AL HOOVER,
Iowa Department of Transportation, Division of Aeronautics, Municipal Airport, Des Moines, Iowa

DEAR MR. HOOVER: By Order 82-8-135, the Board designated Mesaba Airlines to provide essential air service at Fort Dodge and established a subsidy for the first year of the carrier's operations. This rate will expire after December 14, 1983.

Mesaba is currently providing two round trips each weekday and over the weekend period over a Minneapolis-Mason City-Fort Dodge-Omaha linear routing with 15-passenger Beech 99 aircraft.

In selecting Mesaba to provide essential air service to Fort Dodge, the Board noted that the amount of subsidy being paid to the carrier was high, especially in view of the low number of enplanements forecast by Mesaba for the first year. However, it selected Mesaba to provide the service because it believed the community deserved a one-year test period to demonstrate its traffic generating potential and its need for the service. The Board at that time indicated that if traffic did not respond during the first year it would consider amending the essential air service determination and examine ways of reducing the subsidy.

During the first nine months of 1983, Mesaba enplaned a total of 3,289 passengers at Fort Dodge, an average of 14 passengers per day based on service six days per week. The service Mesaba was selected to provide was based on the current essential air service determination which assumes an average of at least 31 enplanements per day.

In view of this, we have asked Mesaba to submit a proposal based on the current level of service it is providing at Fort Dodge, and in addition, have asked the carrier to submit any alternate proposals which could result in lesser subsidy payments. Specifically, we have asked Mesaba for a proposal offering service only to Minneapolis.

Once we complete our negotiations with the carrier we will advise the civic representatives and the state of the service/subsidy alternatives and allow them to submit comments on the various options. After considering all of the available service/subsidy options and the views of all parties, staff will submit a recommendation to the Board on the level of service and subsidy that it feels should be approved for the next year, and the Board will make the final decision.

If you have any questions on this matter, please contact me at (202) 673-5405 or John McCamant of my staff at (202) 673-5448.

Sincerely,

JOHN L. QUAY
(For William C. Boyd, Chief,
Essential Air Services Division I,
Bureau of Domestic Aviation.)

Appendix C

SUMMARY OF ESSENTIAL AIR SERVICE DEPARTURES AND SEATS BY STATE—AUGUST 1978 VERSUS AUGUST 1983

State [1]	Number of departures per week		Percent change in deps.	Number of seats per week		Percent change in seats
	August 1, 1978	August 1, 1983		August 1, 1978	August 1, 1983	
Alaska	240	246	2.5	10,495	12,406	18.2
Arizona	349	637	82.5	8,181	10,067	23.1
Arkansas	684	622	−9.1	22,946	14,774	−35.6
California	1,989	2,346	17.9	119,784	98,258	−18.0
Colorado	555	503	−9.4	24,915	18,366	−26.3
Connecticut	534	899	68.4	8,602	17,366	101.9
Florida	364	654	79.7	30,809	29,597	−3.9
Georgia	416	380	−8.7	34,800	22,239	−36.1
Idaho	247	326	32.0	15,743	7,004	−55.5
Illinois	791	985	24.5	37,732	29,272	−22.4
Indiana	580	292	−49.7	9,130	7,520	−17.6
Iowa	444	628	41.4	21,160	13,910	−34.3
Kansas	792	679	−14.3	19,799	13,471	−32.0
Kentucky	125	207	65.6	5,954	3,283	−44.9
Louisiana	307	485	58.0	18,823	16,188	−14.0
Maine	851	737	−13.4	30,859	35,529	15.1
Maryland	177	147	−17.0	3,645	3,295	−9.6
Massachusetts	1,017	2,055	102.1	22,865	40,007	75.0
Michigan	802	1,092	36.1	56,306	47,707	−15.3
Minnesota	343	371	8.2	22,918	15,448	−33.0
Mississippi	554	613	10.6	38,540	46,206	19.8
Missouri	549	451	−17.9	25,131	17,340	−31.0
Montana	125	136	8.8	3,981	3,657	−8.1
Nebraska	449	320	−28.7	16,299	13,794	−15.4
Nevada	43	84	95.3	2,989	1,512	−49.4
New Hampshire	388	445	14.7	10,353	9,230	−10.8
New Jersey	232	390	68.1	4,985	14,986	200.6
New Mexico	372	455	22.3	9,314	9,635	3.4
New York	1,551	1,547	−.3	40,771	54,951	34.8
North Carolina	702	572	−18.5	54,873	37,264	−32.1
North Dakota	58	71	22.4	3,034	1,133	−62.7
Ohio	356	327	−8.1	22,061	13,422	−39.2
Oklahoma	219	125	−42.9	6,274	3,498	−44.2
Oregon	295	239	−19.0	14,357	11,653	−18.8
Pennsylvania	762	589	−22.7	18,527	15,733	−15.1
South Carolina	360	439	21.9	25,165	26,042	3.5
South Dakota	262	201	−23.3	17,588	8,514	−51.6
Tennessee	90	36	−60.0	1,536	636	−58.6
Texas	1,292	1,188	−8.1	42,569	46,172	8.5
Utah	121	81	−33.1	2,177	1,318	−39.5
Vermont	78	86	10.3	1,207	1,387	14.9
Virginia	603	732	21.4	49,092	37,864	−22.9
Washington	700	639	−8.7	19,371	21,036	8.6
West Virginia	543	425	−21.7	15,721	9,530	−39.4
Wisconsin	821	880	7.2	54,065	50,371	−6.8
Wyoming	479	359	−25.1	18,357	17,673	−3.7
Total-All EAS within 48 States	23,611	25,721	8.9	1,043,803	930,264	−10.9

[1] Includes all states within Continental U.S. except Delaware and Rhode Island, which has no EAS points.

Source: CAB October 4, 1983.

COMPARISON OF PER MILE AIR FARES BY LENGTH OF HAUL FOR SELECTED MARKETS

[Air fares oneway coach, selected markets—January 1983]

	Miles	Oneway coach fare	Cents per mile	Number of published fares in market
Minneapolis to:				
Bemidji, MN	199	$123	61.8	3
Brainerd, MN	114	62–102	54.4	2
Chisholm/Hibbing, MN	172	82–118	47.6–68.6	2
Duluth, MN	141	108	76.6	3
Fairmont, MN	108	72	51.1	1
Fargo, ND	225	103	45.8	4
Grand Forks, ND	285	120	42.1	4
International Falls, MN	253	128	50.6	2
Mankato, MN	61	62	101.6	1
Rochester, MN	76	70	92.1	4
Thief River Falls, MN	262	123	46.9	3
Winona, MN/LaCrosse, WI	117	102–108	87.1–92.3	3
Worthington, MN	149	80	53.7	1
Chicago, IL	342	119–139	34.7–40.6	12
New York, NY	1,018	246	24.2	4
Miami, FL	1,503	187–337	12.4–22.4	6
Los Angeles, CA	1,539	255–325	16.6–21.1	9
New York to:				
Los Angeles, CA	2,469	99–502	4.1–20.3	12
Miami, FL	1,100	135–269	12.3–24.5	10
Jackson, MS	1,069	280	26.2	3
Omaha, NE	1,148	258–287	22.4–.25	5

Source: OAG, January 1983 and table 8, CAB O & D survey.

NATIONAL ASSOCIATION OF STATE AVIATION OFFICIALS,
Washington, D.C., February 1, 1984.

Hon. NORMAN Y. MINETA,
Chairman, Subcommittee on Aviation, Committee on Public Works and Transportation, Washington, D.C.

DEAR MR. CHAIRMAN: The following information is submitted to supplement our testimony of January 31 before the Aviation Subcommittee:

(1) Suggested Amendments language: Page 15, para. 2), of our filed statement suggests that the 419 Subsidy program can be made "developmental" with minor language for accomplishing the amendments.

(2) State Sharing in Airline Subsidies: Because of the interest in this on the part of various members of the subcommittee, we feel it important to clarify two reasons why this would probably not be successful as a change to the program without extensive reworking of the subsidy concept:

(*a*) Most states do have constitutional prohibitions against giving money to private enterprise concerns. In addition, there would be problems for states to provide funding for any programs that would involve operations beyond the borders of the state (as would be the case in an intra-state route).

[For your consideration in this matter, we enclose a copy of a report dated February, 1979, on the status of State laws at that time. We believe this may be outdated because of recent innovations and changes in various state laws resupporting industrial development initiatives, as well as providing state funds for infrastructure preservation efforts. If the committee desires, we would be willing to conduct a new survey of our membership which would require 60–90 days from start to report.]

(*b*) Beyond the legalities at the state level, is the question of state willingness to participate in a funding program wherein they would not be able to control terms or conditions of the State fund grants. Under present law, this would be the situation. Section 105 of the Deregulation Act, the "Federal Preemption" section, prohibits states from imposing "any law, rule, regulation, standard, or other provision" on airlines covered by the Act. This, in our opinion, effectively precludes a state from establishing grant conditions or enforcing compliances with such conditions, in airline subsidy matters. We cannot conceive of any state legislature providing state funds under those conditions. The net of this, of course, is that changing the program to require state participation in the funding would, in effect, mean the demise of the program unless some relief from the Federal Preemption provisions was provided.

We thank you for your consideration of these views, and stand ready to work with you and the subcommittee staff to any extent you may desire in efforts to achieve a successful continuation of the 419 program.

Sincerely,

JOSEPH G. MASON,
Executive Vice President.

PROPOSED AMENDMENTS TO PUBLIC LAW 95-504, THE AIRLINE DEREGULATION ACT OF 1978

[New language, All CAPS; deletions, ~~struck-through~~]

SECTION 102(a)(8):

"(8) The maintenance AND FURTHER DEVELOPMENT of a comprehensive and convenient system of continuous scheduled airline service for small communities and for isolated areas, with direct Federal assistance where appropriate.

SECTION 102(a)(10):

"(10) The encouragement of entry into air transportation markets by new air carriers, the encouragement of entry into additional air transportation markets by existing air carriers, and the continued strengthening of small air carriers THROUGH ASSISTANCE IN MARKET DEVELOPMENT so as to assure a more effective, competitive airline industry.".

SECTION 419(a)(2):

"(2)(A) With respect to each eligible point which on the date of enactment of this section is served by not more than one air carrier holding a certificate issued under section 401 of this title, not later than the last day of the one-year period beginning on such date of enactment, the Board, after considering the views of any interested community and the State agency of the State in which such community is located, shall determine what is essential FOR THE DEVELOPMENT OF air transportation ADEQUATE TO THE NEEDS OF ~~for~~ such point.

SECTION 419(a)(4):

[New] "(iii) WHAT SERVICE FACTORS ARE NEEDED TO ADEQUATELY DEVELOP THE MARKET IN SUCH A COMMUNITY THAT IT COULD EVENTUALLY BE SELF-SUSTAINING WITHOUT SUBSIDY; AND

[New] "(iv) THE LEVEL OF SUBSIDY REQUIRED TO PROVIDE THE SERVICE FACTORS IDENTIFIED UNDER (iii), ABOVE; and

[Present (iii) to be renumbered as (v)]

TABULATION OF QUESTIONNAIRE CONCERNING PROVISIONS OF AIRLINE DEREGULATION ACT OF 1978

2/79

1. Do you agree or disagree with the suggestion that the states share in the cost of the 406 and 419 subsidy programs?

Agree	See Comments	Disagree
7 *	3 **	24 ***

*

Indiana: Agree, but not possible. Only 7 communities in Indiana are eligible. I've spoken with our Senate Pres. and House Speaker. They believe the Legislature would never fund such a program, and we have no other funding source than the general fund.

Maryland: Agree, however, only to the extent that the state desires to subsidize service above the minimum essential level or beyond the agreed subsidy period (under "Option I").

New York: Agree, only if community also participates and the state and community have a strong voice in service/carrier selection/ and subsidy decisions.

Utah: Agree, but some states are statutorily prohibited from direct cash subsidies; Indirect (non-cash) subsidies are a feasible alternative — may involve the affected communities also.

Washington: Agree, to a limited degree, if an assumption could be made that this would "buy some authority"; i.e., preemption now imposed.

South Carolina: States should share support for the industry, but few have the financial resources to support the subsidy program.

** Connecticut: We disagree in part since in Connecticut the State owns and operates six airports. The nature of this action as an airport sponsor includes the necessary ground support, security CFR equipment as well as promoting the availability of the service. In our view, this is a form of subsidy.

Illinois: Basically disagree, as there is no indication of what the cost would be or the method by which the cost would be determined. It is our opinion that CAB should develop a simple formula and then submit it through the Federal Register for comments. In lieu of this procedure, it should be presented to the States for evaluation and share in a compromise procedure, if required. It should be remembered that some states might be able to afford it while others would not. Should this be the case, then it should revert to Federal responsibility. One method of subsidy payment to consider in this event would be to pay it from the Trust Fund. Even if it went to the maximum amount of subsidy paid today ($60 to $80 million) it would be infinitesimal as compared to the total amount already collected in the Trust Fund.

Most communities, if asked to share in the subsidy program, feel that local subsidization of the airport itself should provide their share required. Many of these communities are to a point at which increased tax levies are almost prohibitive, if not impossible.

Massachusetts: Difficult to respond to with either a "yes" or "no". There may be considerable merit to one or the other.

***

Georgia: We are reluctant to participate in any subsidy program that automatically excludes any community from being considered for air carrier service.

Hawaii: Subsidy sources should not be limited by state boundaries.

Idaho: The federal government has preempted the states/municipalities ability to generate matching monies; i.e. (1) the enplanement fee prohibition; and (2) the fuel tax, aircraft license fees, pax tax, etc. under the Airport & Airway Development Act of 1970 - which is building in Trust Fund and will ultimately be expended to operate the FAA.

Kentucky: Decisions will ultimately be made by the federal government; therefore, so should the financial responsibility.

Michigan: The source of funds, tax on aviation related activities, has been severely restricted in order to support the Airport and Airway Trust Fund. The states are prohibited from use of these sources which would be the most logical means of gaining a capability to provide subsidy support.

Minnesota: At the present time the state and municipal airport owners in Minnesota are providing $26.7 million annually in state and local funds for construction, maintenance and operation of air carrier served airports, Historically, it has been in the national interest to foster and promote the development of all sections of the country. Without access to the air transportation system or some other reasonable form of public transportation many communities will die on the vine.

Missouri: State and local funds for airport development already subsidize the program.

Nebraska: Most states do not have any elasticity in their budgets to accommodate a subsidy program. Some, like Nebraska, are subsidizing all air carriers to the extent that they provide services (navaids, weather observations, etc.).

New Hampshire: Sounds good in theory, but state and/or local subsidy will be hard to sell, particularly in those states, such as N.H., where populations are relatively small and onus is on reducing taxes. Also, there is some feeling that states and communities are already subsidizing to some extent by keeping airports open year round and maintained and managed.

New Jersey: Commuter air service would not develop properly if state or local participation was a prerequisite for subsidy.

New Mexico: New Mexico has a constitutional prohibition on the state or its political subdivisions giving financial aid to private enterprise.

South Dakota: We have invested 'general appropriation' funds in airports and have no taxing sources to raise funds to subsidize air service.

Texas: State should help with administrative services only.

Vermont: States (especially Vermont) are on a different and less dependable revenue base.

Tennessee: Tennessee is not in the subsidy business and legislative attempts in the past authorizing subsidy to private commuter airlines have failed miserably. I do not anticipate the General Assembly of the State authorizing matching subsidy with the CAB at any time in the near future. This is not to say that the Bureau of Aeronautics would not assist the Board in the administration of subsidy for commuters in Tennessee. In fact, we are more than willing to assist the Board with accounting administration and pass through agreements for subsidy-eligible commuters.

2. IF YOUR STATE WERE AGREEABLE TO SHARING THE COSTS OF THE 406 AND 419 SUBSIDY PROGRAMS, COULD IT NOW LEGALLY DO SO OR WOULD LEGAL ACTION HAVE TO BE TAKEN TO PERMIT IT TO DO SO? (I.E., CONSTITUTIONAL AMENDMENT, ACTION BY THE LEGISLATURE, ETC.)

Yes: - 5

Louisiana (probably could be done under agency's broad charge to "promote and develop" aeronautics; Mississippi; New York (yes, for equipment purchases, no for operating assistance; legislative approval required for the latter); Utah (but state is reluctant to be involved in direct cash subsidies); Virginia.

No: - 5

Legislative Action Required for Either Approval to Subsidize, or for Subsidy Funding - 14

Constitutional Prohibition: - 7

Idaho; Kansas; Nebraska; New Mexico; Tennessee (state is specifically prohibited from subsidizing private enterprise); Texas (it is not clear whether Texas could use tax revenues to subsidize an air carrier because such revenues must be for "public purposes only". Even if subsidization of private enterprise for the public good is constitutional, the legislature would have to appropriate funds.); Washington (if state funds went to private enterprise, then constitutional amendment would be needed; if the state "contracted" for certain service then no constraints exist).

See Answers to #1 above: - 3

Connecticut; Indiana; New Jersey.

3. WOULD YOU LIKE TO SEE THE FEDERAL PREEMPTION CLAUSE IN THE LAW CHANGED TO REFLECT A CONTINUATION OF STATE REGULATION OF COMMUTER AND INTRASTATE CARRIERS?

Yes * - 17	No** - 15	No position - 2 (Md. - Miss.)

* Idaho: Yes, as applies to route protection.

Illinois: We would like to see the federal preemption clause in the law changed to reflect continuation of state regulation of intrastate carriers. The Illinois Aeronautics Board was established by legislative action in 1973 with an effective date of January 1, 1974.

(continued next page)

The statutory authority charged the Illinois Aeronautics Board with the responsibility to regulate intrastate commuters from the standpoint of not only economics, but safety. Carriers which were certificated under Part 401 are exempt from the Illinois Aeronautics Board's jurisdiction. The impact of the Deregulation Act with respect to the certification of carriers under other parts and the Board's action related to this particular type of carrier would have to be evaluated through our legal resources. While I cannot specifically state the outcome of such an evaluation, it would appear that legislative action would be required to exempt any carrier operating under a different type of certificate (Part number) issued by the CAB. At the present time, the Illinois Aeronauics Board's statutory authority specifically precludes the regulation of any carrier holding a certificate issued by the CAB.

The State of Illinois, after five years of operating experience, has the full capabilities of financial evaluation as well as safety evaluation of commuter carriers. It is also charged with the review and approval, or denial, of intrastate route applications which may be submitted by a commuter. The Illinois Air Carriers Act, itself, is one of the strongest of its type in any state excluding Alaska.

Indiana: Communities are unanimous that our agency handle all semi or annual reports to CAB as well, using the Aero Commission as liaison between the community and CAB. We will have a better, more responsive system.

Louisiana: Federal regulation "by exemption" is an absurdity. Lack of any type of regulation will encourage incompetent promotérs leading to discredit of the industry and loss of life to passengers.

Minnesota: Yes, in Minnesota, a commuter air carrier operating without a Certificate of Public Convenience and Necessity from the CAB is required to be licensed. To be licensed, the carrier must have an ATCO Certificate, obtain an agreement with the airport owners for the airports he wishes to serve, provide a faithful performance bond, and insurance coverage. In addition the Commissioner of Transportation must be notified of his schedule, and the N-number, make and model of aircraft the carrier proposes to use.

New York: Law should be revised to change definition of "single interstate route" to about 1/3 to 1/2 of the route miles flown.

South Carolina: The preemption clause could restrict input from the areas that are most attuned to the commuter situation.

Tennessee: The federal preemption clause should be changed to apply only to that portion of a commuter or intrastate carrier's operation that is specifically certificated by CAB and not merely on the basis of operating under a Part 298 exemption.

Washington: A "local" view of needs and operations plus more accurate forecasting abilities is better than federal.

** Connecticut: No, the size of Connecticut does not lend itself to intrastate carriers.

Delaware: The need for uniformity is paramount.

Massachusetts: No, better handled by CAB.

N. Hampshire: This is not a big concern with us, and has not been in the past. This is because most of our public wish to go to an out of state hub (NYC or Boston) rather than to an intra-state point. Even so, there should be some requirement that an interstate air carrier has a home state, which could realize some revenues from taxation of aircraft.

South Dakota: No, not currently an issue in South Dakota. In a state with small markets it would seem logical to us that some route protection will be necessary to protect a carrier trying to serve the route system.

Utah: No, Utah's PSC has never wanted to regulate air carriers.

Vermont: No, intrastate is just that.

4. IF YOUR STATE CURRENTLY REGULATES (TO WHATEVER DEGREE) COMMUTER AIRLINES AND INTRASTATE CARRIERS, DOES IT INTEND TO CEASE SUCH REGULATION IN LIGHT OF THE PREEMPTION CLAUSE?

Yes: * 9   No: ** 10   Question Not Applicable— State does not Regulate: 15

* Idaho: The PUC, by rule making, cancelled all existing certificates of convenience and necessity to all served points.

** Illinois: With respect to the Federal preemption provisions, the Illinois Aeronautics Board has taken a position that "business as usual" will be carried on, and they will continue until contested. At that point, the Board will evaluate the total situation to see what course of action might be taken. As you know, the States of California and Texas are already in the courts over this matter (as I understand it, the basic premise for the litigation rests with the 9th Amendment of the U.S. Constitution). It is the Board's position that those states having the capability of dealing with these matters are in a much better position to evaluate the needs of, not only the state, but the communities. It feels that a route protection approach is of prime consideration where the regulation of non-subsidized commuters is concerned. I would reiterate that the above made statements are a Board position and do not reflect the thoughts of any individual.

* Kentucky: As we understand the law, a commuter which flies one interstate route could claim that the state has no right to regulate its activities. Given our geographic location, enforcement of present regulations is very much in doubt.

* Texas: The State of Texas previously regulated routes, rates, and services of all intrastate carriers. Under the new rules, the TAC regulates market entry by new carriers.

* Utah: Utah's PSC is scheduling a hearing to de-certify any previous actions of regulation.

** Louisiana: No, but then again, what choice do we have. If the Feds would do it, the answer would be "yes".

** New Hampshire: Our right to regulate is provided for in a state statute.

However, in practice it has not been administered to any extent because of the nature of our region and the traditional trade ties with NYC and Boston. The answer is "no" as and when an intrastate air service materializes.

** South Carolina: No. While current regulation is limited, the state can address specific problems much more quietly than at the CAB.

** Wyoming: The Wyoming PSC intends to retain whatever jurisdiction the state has with some control over new intrastate routes.

5. DO YOU AGREE THAT THE CAB CAN OR SHOULD COMPLETE THE DETERMINATION OF WHAT IS ESSENTIAL AIR TRANSPORTATION BY OCTOBER OF 1979?

Agree: * 21 Disagree: ** 12 Should Make Effort: 1

* Georgia: Believe CAB should complete an initial determination of essential air transportation by Oct. 1979, with these determinations subject to review.

Indiana: If possible! We would not oppose a short extension, but with CAB track record of foot dragging any extension must be carefully monitored.

Massachusetts: Agree they should, but not sure if they can.

Michigan: Agree - at least the criteria can be developed by October and there should be no delay allowed since many applications are being made for terminations and suspensions of service without a finding of "essential".

Minnesota: Agree. There are communities receiving a level of air service which they consider reasonable and the air carrier is willing to provide. As to these communities the Board can determine generally that essential service means that which is currently provided. If a community expresses some different level of service requirement, then the Board can focus on that particular community.

Missouri: Agree - we have already suggested to the Chairman that additional assistance be requested of Congress in a supplemental request.

Nebraska: Agree - but may need later modification.

New Hampshire: Our experience with the CAB in past years has been such that the agency must be given a time table in which to act. Otherwise, it will (or has) take (taken) lots of time. I personally feel that the CAB will have problems meeting the deadline...but I am inclined to let them admit same and ask Congress for a 3 to 6 month extension.

New Mexico: Agree - only if adequate staff resources are dedicated to this end. Also a continuing staff commitment must be made to review pursuant to Sec. 419(a)(1)(c).

South Dakota: Agree - refinement and practical application can be worked out after 10/1/79.

Tennessee: Agree. The Board's determinations of essential air service can be accomplished before October 24, 1979 if the Board sets the standards pegged to a percentage of what a community now enplanes. If the Board develops a complete new set of standards, it is doubtful that the deadline can be met on a national basis. The impact of deregulation will be difficult to assess until this key term is defined and implemented.

Utah: Agree - if the CAB will work with and through state and local government - the date is feasible.

Vermont: Agree - first phase (threatened communities) perhaps - second phase (restoration of service and total bill) later.

Washington: They should! They can only by the assistance of local and state input.

Wisconsin: The Board should and can determine essential air transportation by October if they request and receive assistance from the states.

** Connecticut: Disagree - with so many points to consider in such a short period of time to a number of locations, it is doubtful that a fair assessment can be made so soon. The essential element in that service should not be terminated until the determination is complete.

Idaho: Disagree - impossible! The Congress cannot mandate hardware, so equipment (aircraft) are not available. 522 points are affected. We will be lucky to have interim criteria established by October. How short memories are! How about the ground side (airports), debt service, contracts for security, etc.

Illinois: It is our opinion that the CAB will be unable to complete the determination of what constitutes essential air transportation by October 1979, unless it is a crash program geared to satisfy a deadline rather than using a rational approach compatible with all segments affected which could and should take more time. Our feeling is that the time frame is too tight and that an extension of time should be provided so that additional hearings could be held prior to the submission of the final report to Congress.

Louisiana: Inadequate time to do justice to such an enormous problem so important to American cities.

New Jersey: More time needed - perhaps six months.

New York: CAB can't meet deadline unless they rely on States and local communities to define it for them.

South Carolina: Community preserves are such that an acceptable determination of essential air service by October 1979 would be difficult.

Texas: The CAB probably cannot complete this determination by the 10/79 deadline. At any rate, the Board should not substitute reasoned analysis for hasty completion of its determinations.

Virginia: Almost impossible to do a good job by October 1979. Anything less would not well serve most communities.

6. DO YOU BELIEVE THAT NEW COMMUNITIES IN YOUR STATE NOT COVERED BY THE ESSENTIAL AIR TRANSPORTATION PROVISIONS OF THE LEGISLATION SHOULD BE ELIGIBLE FOR AIR SERVICE?

Yes: * 30 No: 2 ** General Comment: *** 2

* Alabama: If public in new areas will support service.

Connecticut: We have communities in this state which were dropped before 1968 and some never were certificated that should have been.

Delaware: Very important to our State Capital, Dover Delaware and to Georgetown, Delaware which serves Rehoboth Beach area.

Indiana: We have 7 eligible by present rules but, by our count, 18 communities should be -- or 11 more than are.

Kansas: Depends on needs.

Kentucky: One area of our state (Eastern Kentucky in Appalachia) has long suffered poor transportation opportunities, including air service. This has been caused not only by low population density, but also by the lack of appropriate airport facilities. Rejuvenation of the coal industry, however, is increasing economic activity in the area. We believe this area should be strongly considered when the airport facilities are available.

Louisiana: Present system based on "historical" demand has been wrecked by growth-minded local service carriers.

Michigan: Section 419(b) provides sufficient legal means for this to occur.

Minnesota: There are maybe 3 or 4 communities within the state which could benefit from improved access to the air transportation system because of the lack of access to other scheduled transportation.

Missouri: In a few instances during application of criteria for "other eligible points" (419(b)).

Nebraska: If they can show the market can support it with limited subsidy and they have poor access to the air transportation system.

New Hampshire: The nature of communities is a changing thing in many instances. We have two situations in this state wherein industry and people are changing moderate cities to much larger situations. Those communities merit consideration because of the changed circumstances.

New Jersey: If the demand exists, the service should be available.

New York: Community may grow to need air service even though they never had it before.

South Carolina: The current eligible points may not reflect the major needs of the state because of shifts in population and development.

South Dakota: If the route system would allow additional (new markets) and there is a minimum demand and need for air service.

Tennessee: The fact that a community does not have nor has not had air service in the past ten years does not mean that that community should not receive such service. It may be better able to support air service than an "eligible community". This is particularly true in Tennessee where industrial developments have changed the economic and demographic characteristics of the state over the past ten years.

Utah: Utah has several communities still rapidly growing as a result of energy, industrial and recreational growth and development. Several need or will need air service. St. George is one example of a community warranting service but ineligible under present law. Has more demand than its sister community of Cedar City, which is an eligible point. St. George is the fastest growing community in Southern Utah and is located in Washing County, the second fastest developing county in Utah -- exceeded only by Emery County -- with growth being temporary, but Washington being stable growth.

Unless the law is amended, St. George cannot be considered!

Vermont: Yes, we're still trying to recover from the New England Service Investigation plus decades of the wrong subsidy to the wrong people.

Virginia: Yes, if population in isolated areas can support the service.

Washington: Yes, at least 3 communities can be identified in Washington that we feel are eligible.

Wisconsin: Yes, short term subsidies should be available to get air service started at communities with good traffic projections. The state would be willing to share with local governments the cost of subsidy.

Wyoming: Several communities have expanded rapidly due to the energy crunch. Surface transportation, generally speaking, is poor to nonexistent at communities where it is now needed.

** **Idaho:** No, not at the present time. We have a large state, low population concentrated in specific areas. Our problem is keeping the service we have to seven points. 5 serve large regions, not communities - each enplane from 300 to 400 percent of the population of their respective "community". Example: Boise, Idaho, population 99,000, enplanements 929,000 passengers. (Handwritten 929,000 may be 429,000 ??)

*** **Illinois:** This indirectly relates to item number 5, however, it would appear that the CAB has the cart before the horse in its efforts in determining what constitutes essential service. It would appear that the most precise method of arriving at this determination would be to assess the needs of the community (short term marketing studies) and then decide on that basis what constitutes essential air service. New communities, in our state or in any state not covered by the essential transportation provisions, could then be evaluated from the standpoint of an acceptable market under these provisions regardless of subsidy consideration.

Maryland: Maryland has no communities which would require guaranteed service prior to their reaching the point of development at which they could support unsubsidized service.

7.- 8. HOW MANY SUCH COMMUNITIES WOULD YOU ESTIMATE EXIST IN YOUR STATE TODAY: WHY DO SUCH COMMUNITIES REQUIRE AIR SERVICE:

Ala:	3	Ind.	Md:	0-10		Okla:	0-10	Ind-PG-LA-S
Ark:	0-10	Ind.-PG	Mass:	20-40	Ind.-PG	S.C.:	0-10	Ind-PG-S
Conn:	0-10	Ind.-PG-LA	Mich:	10-20	Ind.-PG-S	S.D.:	*	Ind-Isolation
Dela:	1-2	Ind.-PG-LA	Minn:	3-4	2/	Tenn:	Less than 5	Ind-PG-LA
Ga.:	*	" " "-S	Miss:	0-10	Ind-PG-LA-S	Tex.:	0-10	PG
Hawaii	0-10	ST	Mo.:	0-10	" " " "	Utah:	0-10	Ind-PG-Isolation
Idaho:	*	Ind-PG-LA-S	Neb.:	0-10	S & Isolation	Vt.:	0-10	Ind-S
Ill:	*	1/	N.H.:	2	Ind.-PG	Va.:	0-10	PG-LA-S
Ind:	18	Ind.	N.J.:	0-10	Ind-PG-LA-S	Wash.:	0-10	PG-LA-S
Kans:	0-10	Ind.	N.M.:	0-10	Ind-PG-S	Wisc.:	0-10	LA-S
Ky:	0-10	LA-S	N.Y.:	0-10	PG-LA	Wyo.:	0-10	Ind-PG-LA-S
La.	0-10	Ind.-PG-LA-S						

*Georgia: All communities in our state should be eligible for consideration.

Illinois: This is a difficult subject to address as some communities might be eligible under the new act. We have 5 such communities, 3 of which are currently being served by a commuter, 1 community with a metropolitan area with a population of 40,000 (no service to this community at this time). Additionally, there is one large area, which is under consideration by the State of Illinois for the development of an airport which, upon completion of the airport, might qualify under the essential service provision. These communities, of course, could not qualify for participation in the CAB regional meeting; however, could possibly qualify, assuming that commuter services dropped.

Idaho: None now, possible 2 in 10 years.

South Dakota: 3 multiple carrier markets - 6 single certificated carrier markets = 9 existing, plus 4-6 additional markets.

1/ - Illinois: Increased industrialization and population growth could be a valid consideration for meeting the criteria of essential service at a later date.

2/ - Minnesota: It is a combination of factors which include lack of reasonable access to an air carrier served airport, need to stimulate the local economy, no other mode of scheduled transportation available.

9. WHAT DO YOU BELIEVE ARE THE MINIMUM AIRCRAFT STANDARDS FOR ESSENTIAL AIR TRANSPORTATION TO SMALL COMMUNITIES:

5 - 7-15 seat aircraft
2 - " " " for new points only
4 - " " " plus pressurization on high altitude en routes
5 - 15 + seats (1 of these indicated 15 seats for subsidy consideration)
3 - " " " plus pressurization on high altitude routes
1 - 6 seats plus pressurization on high altitude routes
1 - 7-15 seats plus turboprop and pressurization.

6 - Minimum aircraft standards should be set on an individual community basis.

*Ind.-Increased industrialization; PG-increased population growth; LA-lack of access to a nearby airport; S-Poor surface transportation.

Continued next page

Idaho: The term small community is extremely bad. Our largest city is under 100,000 (see question 6), our smallest city served by a local service carrier is 23,000 persons, enplaning over 60,000 passengers. Airports serve regions — let's forget such stupidity and face reality - we are talking systems, not islands - needs - not ficticious grouping like "small communities".

Louisiana: DEFINE "commuter" by something other than "what it is NOT".

Michigan: Aircraft will need to be at least twin-engine with instrument flight capability. Size needs to remain flexible.

Minnésota: Aircraft size cannot be determined on the basis of some predetermined seating configuration, as you are proposing. Factors such as: route structure, distance, type of passengers (tourist, business, etc.), weather, passenger volume, air freight and last but not least, profit potential must be taken into account. Also, communities which are now served by Convair 580 and DC-9 aircraft are not going to willingly accept service in a Twin Otter, a Piper Warrior or some other small aircraft.

Mississippi: Multi-engine aircraft with the available seats to meet the needs of the community.

New Hampshire: Our traditional air traffic patterns for scheduled air service are to two different hubs (i.e. to NYC and to Boston). We feel that turbine powered, pressurized aircraft of about 40-50 passengers are needed for the NYC service. We feel that 7-20 passenger aircraft (twin engine) are suitable for the Boston run provided frequency of service is adequate.

Texas: The minimum standards depend on the operating environment. The Board should look closely at safety and cost savings factors in determining if single engine craft are even suitable.

Wisconsin: We would prefer to use average load factor to provide an adequate number of seats relative to demand while allowing the carrier some flexibility in choice of aircraft. If the flights are over 250 miles, turbine aircraft should be used.

WERE
Q 10. IF YOU/DEVELOPING "FITNESS CRITERIA" FOR COMMUTER AIRLINES TO PROVIDE ESSENTIAL AIR SERVICE WHAT WOULD THEY BE?

11 - proper equipment
15 - strong financial position
7 - Safety record/good ops and maintenance
9 - good management ability, experience
2 - appropriate plan to serve points on route
2 - system for handling reservations, passengers, air freight, etc.

1 - FAA ATCO certificate to operate 10+ pass. aircraft
7 - Historical performance good character and professional reputation

Idaho: Remember who is being served and who pays for the ground side (airport) also. Hardware, financing, experience, stage lengths, city pairs, frequency. Again, where are all these "commuter airlines"? Where are they going to find the hardware (airplanes)? We cannot expose our citizens to "junk" airplanes.

Illinois: Cash to current liabilities; acid test ratio; current ratio; debt to worth; profits to worth; working capital; net worth; insurance.

Kansas: profit and loss statements; balance sheets; cash flow projections; statements of sources and uses of funds; financial projections from small community operations; capital needs; program for financing capital needs, including acquisition by long-term lease or purchase of aircraft; revenue projections, both passengers and freight; operating expense projections; sensitivity analysis for changing factors, such as fuel costs; capitalization; debt coverage; stock ownership and interlocking directorates.

11. DO YOU AGREE THAT A PRIME CONSIDERATION OF THE CAB SHOULD BE A REDUCTION IN SUBSIDY LEVELS FOR SMALL COMMUNITY AIR SERVICE?

10 - Agree 21 - Disagree 3 - No Answer

(Regardless of answer given, additional comments had two major thoughts in them: adequate service - not subsidy - should be the *prime* consideration of the Board; and subsidy should be at a level and continued for a sufficient period of time to determine whether the market could be built sufficiently that it could become subsidy-free.)

12. WHAT DO YOU BELIEVE THE CAB'S MAJOR CONSIDERATIONS SHOULD BE IN EVALUATING A COMMUNITY'S AIR SERVICE NEEDS?

10 - a) Community's location in relation to proximity of nearest large city served by major air carrier.
3 b) Evaluation of State's interstate highway network.
5 c) Consideration of interest of community as a whole and not just a few individuals.
9 d) Amount of traffic - present/potential.
6 e) Population - present/projected trends
8 f) Industry and commercial activity.
3 g) To develop a level of service which is designed to meet the total demand for a region or community.
4 h) Determination of required city-pair connections.
8 i) Minimum frequency of service.
7 j) Aircraft type and size.
6 k) Time of day scheduling.
8 l) Extent to which a mode of transportation other than aviation serves city-pairs.
4 m) Amount of subsidy to provide needed service.
5 n) Adequate, safe airport with approach aids.
8 o) Isolation
3 p) Air cargo requirements
3 q) Present level of service (markets - city-pairs)
8 r) Economy of the region - dependence on air travel
4 s) Carrier's past performance record

Mr. **Mineta**. Please proceed.

TESTIMONY OF SONNY NAJERA, PRESIDENT, NATIONAL ASSOCIATION OF STATE AVIATION OFFICIALS; AND JOHN R. AUER, CHAIRMAN, AIR SERVICE POLICY COUNCIL, NASAO

Mr. **Najera**. Thank you, Mr. Chairman.

My name is Sonny Najera, director of the Aeronautics Division, Department of Transportation in Arizona as well as the president of NASAO. With me is John Auer, from Nebraska, director of Aeronautics. He also heads up our Air Service Council with NASAO and has done a great deal of work on the air service issue.

As we have filed a comprehensive statement, we are going to briefly summarize some of the key points.

The main thrust of our testimony is that specific legislation is needed to cover the demise of the CAB, even if it is only amendments to the existing act.

We do not believe that the essential air service program should be transferred to any successor agency as is by letting the present act run its course. This would permit continuation of present policies and practices and in some cases we do not believe that they are doing what either Congress or the public expected of the Deregulation Act.

With that, I will ask Mr. Auer to review some of these specific proposals and I will then cover some recommended changes.

Mr. **Auer**. Thank you, Mr. Najera.

Our filed statement points out that we do realize that if the 406 program had continued, we would, by now, have spent many times the 419 costs. Our comments, therefore, are addressed to ways to salvage the 419 program to make it more effective for its remaining years. We cite the GAO report of May 18, 1983, which you have before you, which says, "The number of passengers using air service at 88 subsidized communities decreased by 50 percent since deregulation became effective."

It also says, "Many small communities passengers were attracted to larger nearby airports for better service and scheduling, larger planes and lower air fares."

We agree with that assessment and also with the GAO's prognosis that unless circumstances change, carriers are likely to drop or substantially reduce service to subsidized communities when the program ends in 1988.

We also point out for the record that it is the airline that receives the subsidy and not the community, and in this regard we suggest a change in terminology which really amounts to a change in philosophy. If, instead of subsidies, we think in terms of financial operating assistance, similar to that provided under the mass transit program, we may come to a more equitable treatment.

The selection process used seems to discourage the best of the commuters from even applying. The result is usually a carrier which needs constant infusions of money and which does not have the resources to develop the market it serves.

We have included with our statement actual letters from the CAB to subsidized airlines asking for lower rebids, and recommending that services be cut in order to enable lower rates. We point out that this approach in many cases insures drastic erosion of passenger traffic.

The basic problem, we believe is, that the CAB sees the EAS program as a short-term effort designed only to maintain some level of fair air service until 1988. The existing law is open to this interpretation.

There are presently no incentives for the 419 carrier to promote and stimulate a market. In fact, under the present policy, there is no guarantee a carrier will be able to continue serving any given market from year to year.

We believe the intent of Congress in creating the 419 program was to assist the communities through a transition period by buying time for them to become self-sufficient. We ask for some directive from Congress to specifically make the program developmental in scope.

Our next recommendation is that all EAS communities should be reevaluated. Those which have had good service but have not responded with patronage should be dropped from the program.

Many communities which could be dropped, we believe, have cost-effective access to the national air transportation system through highways, inner city buses, et cetera. In such cases, the alternate modes have become the "de facto" replacement to air service.

At the same time, there are communities that simply do not have the populations to ever support unsubsidized air service. The reality is that they will never be profitable for any scheduled airline.

If, however, such a community is more or less isolated from the national system, it may have to be considered for continuing financial operating assistance beyond 1988.

We recommend that 419 funding be concentrated in those communities which have had poor service, and it should be continued at whatever is necessary to stimulate the markets for a fair test of their abilities to become self-sufficient. In defining good and poor services, we recommend that each market be studied to determine what kind of air service would stimulate that market. It may be the type of aircraft being used, the frequency of service, the reliability of service, the number of seats, the connecting time with major carriers at the hubs, or it may be the selection of hubs of interest to each community. It may be a combination of those.

If a community has had favorable service on most of these counts, then it has probably had good service. If few or none of these favorable factors have been present, it has had poor service.

We also point out that in the case of a poor service evaluation, merely throwing money at the problem may not solve it. Once the service has been specifically evaluated, the Federal agency responsible should either require the carrier to provide the type of service needed or replace it with one which will.

We ask that the States have a voice in the community re-evaluation process as well as continue to have a voice in the replacement carrier selection.

As you know, in the Deregulation Act Congress inserted in several places the phrase "after considering the views of any interested community and the State agency of the State where such community is not located". In the opinion of most of our members, although States have had opportunities to present their views in the past, too little attention has been paid to them. They cite many instances where they warned CAB staff of the adequacies of a particular carrier, the staff was about to select, but were ignored to the subsequent embarrassment of the Board and the ultimate inconvenience of the public.

We also address the question of fares. We believe the rate of financial operating assistance should be such that fares comparable to those available between larger markets can be charged. Reasonable fares are essential to the revitalization of EAS markets.

A more liberal use of financial operating assistance in the development stage would permit lower fares and in many markets produce higher load factors. This could, in the long run, reduce or eliminate the need for financial assistance.

Another factor we discuss is the public resistance to the use of smaller airplanes. We do not argue for a return of jet aircraft to a community which may only enplane two or three passengers a day. However, we present case histories of four Texas communities to support our belief that service in properly sized aircraft operating on high frequency schedules can be successful.

We offer ground rules for determining the properly sized aircraft by pointing out that an operator offering less than a 15-passenger aircraft has little chance of showing a profit. Break-even load factors run about 65 percent for smaller aircraft when administrative overhead and other costs are figured in. With a 10-passenger aircraft that leaves only 3½ seats as profitmakers. This is cutting the margin quite thin, especially when you factor in directional traffic flows and seasonal peaks and valleys.

The financial operating assistance level must be sufficient to give the operator a chance to make a profit.

In our statement we suggest three options for your consideration. First, go along with and even reinforce the CAB's belief that there was no intent in the act to help develop small community markets. This option will be exercized if Congress does nothing to change the existing act. The net result in our opinion will be to guarantee the demise of scheduled air service to many smaller communities in 1988. Or, you can make it clear that when the DOT takes over the 419 program next year, it will be expected to provide funding and assistance necessary to provide development efforts in small community markets.

This can be accomplished, we believe, with minor amendments to the act.

Along with that, Congress should also require re-examination of essential air service criteria including re-evaluation of the communities being served. Our statement suggests specific criteria to be used in addition to the historic enplanement act. If Congress should decide to terminate any communities prior to 1988, we suggest consideration of some form of financial operating assistance to encourage ground transportation directly to the terminal of the nearest connecting point.

Now, for just a minute I would like to take off my sales hat and speak to you as the director of aeronautics for Nebraska. In the last 10 days I have visited with civic leaders of four Nebraska area communities. At the time they had no idea that I would be here today, but individually they asked me to come out and discuss their air service. They wanted to talk to me because they were frustrated and discouraged because they see the end of their air service coming in 1988 and there is nothing they can do about it. They see no hope if the 419 program continues down its present track, but they did have two suggestions they would like to lay before you.

We wonder if there is any chance of combining the U.S. mail program with the 419 program. Most of the 419 communities also have planes coming in to deliver and pick up mail, which seems to be a duplication of effort and expense.

We also wonder about the possibility of abandoning the 419 program altogether, or, on a voluntary basis, and replacing it with a system of Federal grants as is being done in the urban areas today.

Three of my communities which are on the same 419 route feel that for less than is being spent on 419 subsidies to serve them, they could purchase a suitable aircraft and operate their own airline to the places they want to go and at the times they want to go. If the capital costs were removed from the overall cost of doing business, they believe they could charge reasonable fares and still cover the operational costs of the airline. It should be remembered that no tax expense or profit margin would have to be provided.

Since there seems to be a consensus that a reevaluation of the 419 program is needed, I would like to see these suggestions considered during that reevaluation.

At this point, I will ask Mr. Najera to review other areas of the Deregulation Act that should be addressed in a sunset bill because they are either unclear or ambiguous in the present legislation.

Mr. NAJERA. Thank you, John.

The first area for clarification is the responsibility for fitness determinations of regional airlines providing essential air service. This has, in a way, been a subfunction of the CAB's authority to certificate airlines, but as of right now when the CAB goes, so does that authority.

Consumer protection is another area that is not specifically transferred under the Deregulation Act.

Additionally, the authority to allow airlines to incorporate part of their passenger contracts by reference on a ticket. A rule recently adopted by the CAB preempts the States from deciding questions on airline contracts. But when the CAB is gone, no one else will have authority in that matter unless Congress specifies it.

Unfair and deceptive practices are also not specifically transferred to anyone although the FTC may be able to assume the jurisdiction.

The information collection function is also in limbo. Much of the data collected by the CAB is vitally needed by other Federal agencies, and the States, and industry. We are quite concerned about losing this. Much of the airport development program feeds from part of this data.

Finally, we believe that an immediate transition timetable should be established and maintained. The CAB can no longer retain critical staff. They cannot always expeditiously continue processing ongoing paperwork if their staffs are going to be continually reduced and still be dependent on them to operate.

We ask that positions within the CAB to be transferred to other agencies be identified immediately and the transfer plans be announced. That question was raised earlier. We propose that if this cannot be done or legislated quickly, it should at least be communicated to the affected agencies in some form of congressional request for compliance.

One last item that has been discussed today that we think merits consideration was brought up a number of years ago, and that is the up-front loading concept. We still feel that concept would have been valid for points in Arizona. We feel some of our communities would be off the subsidies now had that been instituted back then.

We also advocate use determinations based on actual dollar-volume ticket sales of communities. I think in many cases these have been left out. They are, however, more of a measuring tool than just passenger loadings. Ticket sales, in many cases, reflect the fact that some people bought tickets in the community and drove somewhere else to fly out, and, therefore, it was never reported for that community.

With those comments, Mr. Chairman, we will be glad to answer any questions.

Mr. **Mineta**. Mr. Najera, Mr. Auer, thank you very much for your testimony.

I appreciate the willingness of NASAO to take the difficult position that there should be a reevaluation of whether service should be guaranteed at all EAS cities, particularly those which are close to hub airports. In your judgment, what degree of proximity makes the case for subsidized air service doubtful? I am thinking in terms of driving time. What would be a good cutoff point for evaluation, 1 hour, 1½ hours, 2 hours? What is that threshold of pain, I guess, is what I am asking?

Mr. **Najera**. I will take a stab at that and also let John answer based on the survey he has done.

In our particular case in Arizona, where communities are functioning well under EAS, and are starting to build up, that has been in the neighborhood of approximately 80 or 90 miles. Traffic is still responding well, even though there is a major interstate between the two communities.

The air service is getting better. The question came that the interstate might affect it, and not ever increase it. But it has increased it.

I think that a limit much lower than that in our particular case would probably be good. We don't think that anything much more than this will work in Arizona.

Mr. **Auer**. I think an hour is a reasonable figure but not as an ironclad rule. I think the amount of service has something to do with it. If, in fact, they are driving an hour and getting no better service than they are getting now, there is not much to be gained.

I think of the communities I have in Nebraska that I am concerned about, there are really only two that come under that, and they are the two that use the service the least.

We have to also consider the weather factors. In many of our northern communities an hour in the summertime becomes a day in the wintertime, or is inaccessible altogether.

Mr. MINETA. Your testimony includes two criticisms of the EAS program with which CAB disagrees. I would like to give you an opportunity to elaborate on your position in light of CAB's testimony. First, you suggested that CAB auditing procedures have not weeded out unqualified applicants, and that in your description, "time after time carriers have been allowed to start up service only to fail quickly." CAB's position is that generally the EAS carrier has not failed. Do you have any data on how frequently carrier failure has been a problem?

Mr. AUER. The chairman himself twice in his testimony talked about marginal carriers, and that is the kind of carrier we are referring to. There are cases on record, and I think the CAB could substantiate them, where but for changes in the subsidy that was being provided for additional infusions of money, the carrier would have gone broke.

That the initial subsidy provided was inadequate either because it wouldn't have propped up anybody, or it was inadequate in the first place. It wasn't enough for even a good carrier, but there have been several instances where carriers have said in their first year or even in the second year, "I can't make it on what you are giving me." And they have then, depending on whether another carrier was available to put into the market, they have either been taken out, replaced, or they have been propped up with additional subsidy.

Now, there have also been cases where the CAB kept in the selection phase, carriers that were obviously inadequate we believe, to keep the bids down. In cases where there were only two carriers bidding, if one of the carriers had been ruled ineligible for whatever reason, the other carrier then could have raised its bid. By keeping in these marginal carriers to begin with, that didn't happen.

Mr. MINETA. As I pointed out in my opening statement, though, the CAB is limited to those commuters who are willing to provide service. Do you know of any situations where the CAB selected a carrier which later failed, in preference to a carrier which turned out to be a more stable carrier?

Mr. AUER. No; I can't pinpoint such an occasion.

Mr. MINETA. You also stated that CAB has evolved a low-bid system. CAB states, as I mentioned, "In 40 percent of the cases, they did not select the lowest bidders." If CAB statistics are accurate, would you still characterize the system as a low-bid system?

Mr. AUER. Let me just say, Mr. Chairman, I am a little suspicious of the CAB data, because of the way they conducted their survey, and I would like to go back to that and call your attention to a very important fact. They surveyed over 500 EAS communities. Only 20 percent of those communities were being subsidized. If you surveyed only the subsidized communities, you would get an entirely different picture of the degree of satisfaction.

Mr. MINETA. With respect to subsidy, it seems to me that the act places CAB in a difficult position of having to pay whatever subsidy is needed to insure service, while at the same time being expected to keep subsidy levels reasonable. Do you feel that CAB has gone too far in trying to protect the taxpayer, and if so, do you have any suggestions as to any other means that the CAB could use to control subsidy costs?

Mr. **Auer**. Yes; we do. We think that they have been preoccupied with the problem of keeping the subsidy level down. When we compare the costs of the airline subsidy program, even under the 406 program, with the costs of subsidy to other operating modes, we think it is a very small price to pay. Seventy million dollars originally was a lot of money to us out in the small communities, but compared to what we are putting into the Washington Metro system, into the New York system, into Amtrak, we think it is a very small amount of money.

The board seemed preoccupied right from the beginning in their ability to cut that figure, and that is the way they have been operating the system. We think that if they had been initially interested in providing good service, if that had been their focus, instead of cutting money, then the people would have responded to that, and then they could have cut the subsidy. But they went at it the wrong way.

Mr. **Mineta**. Mr. Najera, you state that "CAB has not been able to retain or replace critical staff," and that you believe it is essential that those positions within the CAB "that will be transferred to other agencies be identified immediately and that transfer plans be announced."

Are these two issues related in your view, and do you think that the uncertainty of DOT's plans is a cause of CAB's inability to replace or retain staff?

Mr. **Najera**. Mr. Chairman, I think that it is not a secret that there is some difference between CAB and DOT in terms of the transition. As indicated earlier by CAB, they were receptive to some flexibility in their program. I think it is understood, but I am not sure that that is coming through from DOT, that they really need the flexibility, and that maybe they can handle some of these issues administratively.

I would opt to see a more clear-cut definition as to what these things are going to be, and how they are going to be handled. There has been quite a bit of discussion over the transition period now, and still not enough concrete proposals have surfaced.

If we continue going this way, and I think the chairman indicated earlier that if for some reason there is a cutoff of funds, or there is a disagreement in the way it is going to be handled—I think the timetable was in a couple of months—that a lot of communities would be in trouble. Those things I think need to be clarified and taken care of administratively or legislatively, so there won't be an unsmooth transition. We feel that it should be identified and taken care of, and, if it is necessary, that legislative intent be required to get it done.

Mr. **Mineta**. Do you have any idea how the DOT ought to be organized to administer the EAS program effectively?

Mr. **Najera**. Well, Mr. Chairman, assuming some of the concepts that we shared with you today, such as the consideration of the upfront financial development program, then I think it would be up to DOT to structure to get that done. I feel confident that an agency that administers at least $12 billion in highway funds and another $4 billion in FAA funds, et cetera, can certainly handle a program of the $50 million range.

I am not about to tell DOT how to structure, but I think we should get on with getting that structuring now.

Mr. **MINETA**. In my questions to CAB we discussed the lack of current funding for CAB after August 1. Would you agree with me that there would be chaos if the CAB had no authority to take the actions needed on a day-to-day basis to keep the program going, and if so, does NASAO support the early passage of a supplemental appropriation bill?

Mr. **NAJERA**. I don't think NASAO would have a problem with that if we envision that there would be a demise there. You may have a better feel, John, from your survey.

Mr. **AUER**. Let me give you an example. Right now the carrier that serves seven of my subsidized EAS communities is consistently behind in its payment of rent and landing fees, and they claim it is because they are not getting their money in a timely way from the CAB. You can imagine what would happen if they got nothing. In fact, the president of that airline has threatened several times to just stop. As it is now, if they weren't getting any payment we would not get any service.

Mr. **MINETA**. Thank you very much. Mr. Packard.

Mr. **PACKARD**. Thank you, Mr. Chairman.

One of the suggestions that we have been hearing relative to the funding of the EAS program is to require the communities and the States to get involved in the cost-sharing formula. What is your response to that?

Mr. **NAJERA**. Mr. Chairman, Congressman Packard, as it relates to some comments that were made earlier, there are some States that are prohibited by their constitution. Arizona, my State, happens to be one of those; we would have to have a constitutional amendment.

In discussing it with many local communities within my State, and some of our legislators and our Governor's staff, they were not opposed to the concept, if that is what it took to get the job done. The problem of constitutional amendments in our State is quite a problem, and I suspect that many of the other NASAO member States have that same problem as well. In some local communities there are ordinances prohibiting the same.

I think that is probably the biggest deterrent. I think there is a lot of sentiment toward that, if that is what it takes to get it done. But, I think a lot of political realities may preclude it.

Mr. **PACKARD**. Are there provisions that would also preclude your State from participating in other cost-sharing programs, like wastewater control programs or water projects, dams and so forth? The whole trend is moving in the direction of cost sharing. Does that hold true in those areas as it does in transit?

Mr. **NAJERA**. If you are referring to public works projects, I don't think that there is a problem there. We have public utilities in our State, and we have the ability to establish these public utilities. What I was referring to is direct subsidies to private enterprise, which are prohibited in our State, and that is not to say there isn't some sentiment for it.

I suspect that if we get close to 1988, and there is going to be a demise of the air service program, at least in my State, I think there is a good possibility that they would react positively in that direction. However, this is not the feedback that we get from many States.

Mr. AUER. In that regard, the provision of equipment, as was suggested in my statement, would permit the State and the communities to participate by providing the management of that airline, which is a cost, and would be an indirect form of subsidy.

Mr. PACKARD. Are you suggesting in your testimony, Mr. Auer, that the present subsidized system ought to be replaced by what you termed an operating assistance program that would be akin to UMTA's subsidizing of mass transit in the country?

Mr. AUER. I suggested two things, Congressman. I suggested first that—why do we call payments to airlines subsidy? And we call payments to Metro systems and subway systems Federal operating assistance. The term "subsidy" immediately builds a wall among many people, the public and in private. No matter what we do in providing assistance down the line to provide air service, I would prefer we called it operating assistance rather than subsidy.

And in the suggestion that I came up with in the latter part of my presentation, that definitely would be Federal operating assistance, in which the Federal Government provided the money to purchase the equipment to be used, and turned it over to the communities, and let them operate it themselves, just as you do the bus lines.

Mr. PACKARD. Do you not think, though, that that system would gravitate into a subsidy of the total airline system, where all airlines would find reasons not to operate at a profit, and therefore be able to justify and call upon the operating assistance program, just like they do in buses, the bus systems and Metro systems, light rail systems? There are virtually none of them that are operating now at a profit. They are almost all subsidized, most of them subsidized to the tune of better than 50 percent. Would not airlines tend to gravitate toward that in time?

Mr. AUER. It would obviously have to be structured, and the structure maintained that we have now, where certain rules have evolved, in which a community only gets that kind of assistance, if they can't get service any other way.

Mr. PACKARD. I think that history would show, that it would become difficult to differentiate between this kind of subsidized program now and the normal program of providing airline service even at your major airports. There are many airlines, big airlines, that have not been able to produce a profit, and looked at chapter 11 as a recourse. Those would obviously be looked upon as operating assistance types of airlines, and it wouldn't be long until the whole system would be Government-operated or Government-subsidized, in my judgment.

I would have some real concern about moving in that direction.

You made a recommendation in your testimony that all EAS communities should be reevaluated, and those cities which have not supported air service and those cities which will never be able to support air service should be dropped from the program. However, you also state that these communities should not be dropped until 1988. Do I assume from that statement, and the connotation that is behind it, that you are suggesting that the program ought to continue beyond 1988?

Mr. AUER. I obviously didn't get my point across, Congressman. What we are saying is that the whole system needs to be reevaluated, and those communities which have adequate alternate answers, and have not responded to the present system, be dropped, with the exception of some isolated communities. There are some communities that are isolated that cannot ever support unsubsidized air service, and we would like to see consideration for the extension of subsidy past 1988 for those kinds of communities.

Mr. PACKARD. So you are suggesting in that, that there not be a sunset in 1988?

Mr. AUER. Right, to that degree.

Mr. PACKARD. Some EAS points are located within an hour's drive from airports, where a far greater range of air services are available. And this results, incidentally, in many people driving to that airport rather than flying the EAS carrier to a designated hub. Should we continue to subsidize these points which are in close proximity of a larger air facility?

Mr. AUER. I wouldn't want, again, to make a blanket ruling that within an hour you shouldn't receive service. I think there are other factors, the numbers of people boarding, for instance, what the cost per passenger of that subsidy is should be a consideration. But generally speaking I would agree with your premise.

Mr. PACKARD. Should there be consideration of airports that are located in major metropolitan areas where for a variety of reasons, driving time, not distance, takes an hour or longer. A good illustration is getting to LAX.

Some people will drive an hour and 15 minutes to get to LAX and yet they may not live a good distance from the airport. It is just simply conditions. Are there relationships to that which compare to more isolated areas that might be driven to another larger facility in perhaps even less time than it would take to drive across to L.A.?

Mr. AUER. I don't know the transportation system of L.A. I suspect what I am about to say is not true there, but I submit that you are already subsidizing a system to get people to an airport in Washington.

Mr. PACKARD. In what way, sir?

Mr. AUER. The Metro system. I use it.

Mr. PACKARD. So do I. But I don't consider that to be its primary thrust and purpose, to be servicing air traffic. I think that that may be incidental, and it would be very difficult, obviously, to plug every influence into the formula. Be that as it may, I will pass. Thank you. I appreciate your testimony.

Mr. MINETA. Again, Mr. Auer and Mr. Najera, let me thank you for your presentation on behalf of NASAO. And let me also say that NASAO with Mr. Mason, is very well represented here in Washington. We respect him and your organization. Thank you very much.

Mr. NAJERA. Thank you, Mr. Chairman.

Mr. **MINETA.** I would like to call on Mr. Jack K. Daniels, airport manager of the Sloulin Field International Airport, Williston, N. Dak.

Mr. Daniels, the full text of your prepared statement will appear in the record at this point.

[Statement referred to follows:]

STATEMENT OF JACK K. DANIELS, SLOULIN FIELD INTERNATIONAL AIRPORT, WILLISTON, N. DAK.

PREFACE

Airline deregulation and thus the new essential air service (EAS) program for the small and medium sized communities of America has now been with us for several years. My name is Jack Daniels of Williston, North Dakota, and I have been extremely active in the service to "small town U.S.A." for at least 30 years. I'm the long time airport manager of the Williston, North Dakota airport, own and operate several small businesses related to aviation, have served many years on the North Dakota Aeronautics Commission and in addition have been active through several regional and national organizations and their efforts as regards small community air service. I certainly applaud you for your efforts in holding this hearing and thank you for the opportunity to testify before this highly distinguished and critically important group to the future of transportation to small town U.S.A.

INTRODUCTION

The upper great plains region of the United States enjoys a great deal of excellent long haul trunk and regional airline service. Denver, Minneapolis, and Salt Lake City are the centers of this activity and serve as the major air hubs of the air transportation system of this region.

Denver is truly a unique hub because it is the only air hub in the nation where three different carriers use it as a key hub in their route systems. Many other large hubs have one or two carriers hubbing there with lots of minor activity of other airlines. Denver is however the only hub in the nation where three major carriers have 20 percent or more of the activity. Denver is second only to Chicago as a hub of activity or cross feed of flights for United. It is the major hub of Continental with Houston being their only other hub. In addition, it serves as the only hub of Frontier.

Minneapolis is the major hub for both Republic and Northwest Orient Airlines. Minneapolis as such is the gateway for well over two thirds of the United States for our region and does enjoy a large amount of long haul trunk airline service. Western Airlines has developed Salt Lake into a major hub, most of which has happened since airline deregulation. These actions of Western have sharply upgraded the importance of Salt Lake as a hub for the region.

Airline deregulation has generated a great deal of change in the major carriers serving the hubs of the nation. The airlines have faced an entirely new economic environment under deregulation centered primarily around the major factors of unrestricted exit and entry from markets plus freedom to price the commodity any way they desired.

In addition, the airlines have not only had to learn how to cope with a new economic environment but they have in the last three years been faced with a major economic downturn or recession. In addition one of the greatest disruptions of the past 20 years of this airline industry centered around the air traffic controllers strike. This has a tremendous amount of impact on all hubs.

All of this disruption, trauma, uncertainty and opportunity faced by the airline industry has not only had impact on our long haul trunks, and the hubs they serve but also our smaller short haul carriers which we commonly refer to as the commuter or regional airline industry. The impact of all of this on the regional airline industry in the past five years has been nothing short of phenomenal. This industry has grown extremely fast and considering all of the obstacles they have faced have in general terms done an outstanding job of meeting the unfilled demands for air service left void by the struggling trunks learning their way under deregulation. They of course have provided the vast majority of essential air service to small town U.S.A. As these carriers have struggled to find their way so has the EAS program and all related to it across the U.S.

The number of passengers carried and communities served by the regional airline industry has increased at a nearly unbelievable rate over the last several years.

At the same time, that many new carriers were being born and finding their place, several carriers who a number of years ago were viewed as regional carriers have grown dramatically. They have in fact grown to the point that they are now more aptly described as large local service carriers of the nation, such as "Air Wisconsin". Air Wisconsin has grown from a relatively small carrier operating the Swearingen Metro of 17 passengers in a small geographic area to an airline operating a fleet of 50 pessenger de Havilland Dash 7's and 80 pessenger BAe 146's over a greatly expanded region of the country surrounding the Great Lakes with service to several of the nation's major hubs. Note the announcement for four more BAe 146 aircraft ordered by Air Wisconsin as reported in the January 23, 1984 Aviation Daily.

Any industry, in any segment of the U.S. economy, that grows as fast as the regional airline industry has in the last five years will have its failures and problems. This has certainly been the case. Many have entered this rapidly expanding industry only to fail, (Real West in North Dakota), lose large sums of money and disappoint many communities who counted on them to provide their tie to the national air transportation system. Many of these failures were a function of some combination of inadequate financing, management incapable of growing fast enough to meet the demands placed on them, poor community support, confusion as to the EAS program or entry into markets of a size inadequate to support the carrier.

Yet one only has to look at the record of this industry over the last five years to see that success indeed has also been very prevalent. Many strong, relatively large, new viable carriers have been born and taken their place in the United States business community. It is once again a classic example of how our U.S. economic system operates. These new carriers have been highly successful as measured by growth, passengers carried, communities served, and profit potential for investors. Profits have been hard to generate throughout the entire airline industry in the past five years with the major carriers having the longest loss period and largest number of dollars lost in the history of the industry.

Another factor which many see in the immediate future is a reduction in the number of major carriers through combinations with one another or failure. A host of new start, low cost, carriers have and are emerging all over the nation. Their future is totally unknown at this time but they individually and as a group certainly believe they have one. At best all we can do now in small town U.S.A. is wait and see what impact they will have on us.

One major outgrowth of all of this changing activity has been the realization on the part of the players "large" and "small" of the extremely critical nature of the control of feed traffic. Deregulation has dramatically increased competition on long haul routes in terms of frequency of flights, number of carriers in the market and a variety of pricing schemes to attract passengers. The major airlines as a result are spending a great deal of time and effort to develop feed to themselves.

This increased emphasis on feed in evident by the entry of United into many smaller markets traditionally left to carriers such as Frontier. Examples exist everywhere around their Chicago and Denver hubs. Some such cities around Denver where United has entered in the last few years are Tulsa, Oklahoma City, Tucson, Albuquerque, Billings, Rapid City, and many others. Such entry on the part of United has been prompted nearly entirely by the need to develop feed at Denver for other long haul services in place at Denver.

Frontier, on the other hand, has had control of large numbers of feed passengers which they were over the years handing off to others at Denver. Since airline dregulation and an acceleration of the competitive battle at the Denver hub they have entered several long haul markets to try and capitalize on the feed system they had in place. Thus they have acquired the new long haul aircraft in the DC-9-80. In addition, Frontier has added new service to such long haul destinations as Los Angeles, Atlanta, Seattle, Houston and others which in the past have been totally dominated by carriers such as United and/or Continental. Frontier Holdings has also recently started Frontier Horizon as a low cost carrier which Frontier plans to feed at Denver to Chicago, San Francisco, Washington and New York.

The only logical conclusion I can draw from all of this is that the competitive battle has greatly increased nationwide at all major hubs with an increased importance being placed on feed. Thus, there is more and more activity at the hubs of the nation of which Denver, Minneapolis and Salt Lake are three of importance to my region.

In the past few months (not years) there has also been a mad scramble in the industry to gain additional feed by "association" as contrasted to new entry. The major carriers are trying to gain exclusive feed to long haul routes through an association with others instead of entering the market themselves. Dozens of examples exist across the nation for this new feed control concept ranging from the Allegheny commuter feed system of U.S. Air at Pittsburg; Houston Metro and Eastern at Houston; Pan Am Express to Pan American at JFK, Combs Frontier Commuter and Frontier at Denver.

A tremendous amount of activity has been generated recently around this important concept at Denver. Evidence, for example, the recent alliance of Rocky Mountain and Aspen with United not only in terms of concourse location but through interline ticketing, fare integration to beyond destinations and special passenger handling at Denver.

Continental has in a similar way associated with Pioneer following an earlier attempt with Frontier and has in recent weeks changed their name to Continental Commuter announced in early 1984. A new airline operated by a company grown out of Combs Air Freight has also recently started service in Denver. The airline has name integration with Frontier and is called a Frontier Commuter and is flown under Frontier's colors and has Frontier (FL) to Frontier (FL) direct online connecting service listing in the Official Airline Guide. The carrier operates into Concourse D at Denver in the middle of the Frontier banks of flights to long haul destinations. Frontier colors, logo and identification are prevalent on the fleet of 50 passenger Convair 580's sold to the new airline by Frontier.

Complete schedule and fair integration will also be part of the arrangement as will many other items such as seat selection for the entire flight at either end of the itinerary. Frontier has exited the cities of Montrose, Riverton, Rock Springs, Laramie and Cheyenne with replacement by the commuter. One must ask if there are more to be exited by Frontier, United, Continental or others if the system works. Frontier is also making a fairly unique attempt at the capture of feed by the new service of Frontier Holdings of a ground transportation of limo service from flight banks to and from nearby Colorado cities.

The regional airline industry and small town U.S.A. in the EAS program is rapidly beginning to realize, and if not yet they will soon, that their feed systems are extremely valuable to the majors. As this occurs and more integration takes place, the stability of the industry could rapidly change. These integrations could result in more carrier acceptance, better schedule integration from the small city to major beyond destinations including access to low fares, a system for seat assignments from small city to beyond destination, access to credits in frequent flyer plans, easy connections at main ticket counters and gates at hub airports plus a host of other benefits. These all make the flow from the small city to the major beyond destination more fluid, less expensive, easier, and thus more desirable. All of this places greatly increased premiums on the EAS designation of the small city to a major hub where the battle for feed is the greatest.

In addition to the importance of a feed system integration the area regionals are facing a world of vastly improved and often larger equipment available to them and increased faith of the financial community that the industry is indeed here to stay. The small community and traveling public is also gaining a much wider and fuller understanding and acceptance of the industry as being a definite part of the nation's air transportation system.

Finally now we also appear to be beyond the recession of 1982-83 and in the eyes of many, facing a period of tremendous growth and hopefully some profitability for the nation's airlines. The trade press has been full of such predictions in all of late 1983 and in January of 1984.

It is against this background of a fierce battle for feed (long haul passengers) at our hubs, a host of new regional and low cost carriers, an anticipated forecast of less major carriers, a return to profitability of the industry and sunset of the CAB that we must critically examine the future of the EAS program and service to small town U.S.A.

BETTER INTEGRATION OF FARE STRUCTURE FROM EAS CITIES NEEDED

The major trunk carriers of the nation serving hubs such as Denver, Minneapolis, and Salt Lake had an average yield per Revenue Passenger Mile of 10 to 15 cents and sometimes even less during 1982 and 1983 with some increase in late 1983. The regionals serving small town U.S.A. at this same time had fares up in the range of 3 to 5 times this among depending, of course, on market and region. Another important fact is that up to 75 percent or in some cases more of the passengers in the country have been traveling on some type of discount or promotional fare. In many cases small town U.S.A. has been isolated from all of this public benefit of airline deregulation unless they chose to reach an air hub with an extremely high cost air fare or by driving.

It has been only recently that the carriers serving small town U.S.A. have provided a full array of point-to-point fares with majors making the use of local air transportation much more attractive. The battle for feed of the majors has made this possible for some consumers at a much more rapid and beneficial rate than for others. One example is that those small cities tied into a hub such as Denver have had these point-to-point fares at a more desirable level and also much longer than those of us tied to a smaller hub with much less competition.

Big Sky Airlines has been in existence as we all know since the very beginning of the EAS program and it is only now that they are starting such programs of offering our small cities a full array of point-to-point joint fares including discounts or promotional fares. This is because of an apparent close working relationship which is growing between Northwest and Big Sky.

The small city is thus now for the first time based on the brief history of airline deregulation realizing that the competition for feed at the hub is a very important factor in the air service offered by the small carrier. This is because of benefits the small carrier can receive from the large carrier at the hub and by passing it on to the consumer the carrier can vastly improve their loads and resulting profitability. In general, the larger the EAS hub, the better in this regard for the consumer in small town U.S.A.

All of you involved in administering the EAS program and us in small town U.S.A. should make the moves necessary to encourage such integration of the regional and trunks of the airline transportation system. The result is to some degree a form of the long haul, 1500 to 2000 mile flight, supporting the 100 to 200 mile segment. A small percentage decrease in yield of the long haul segment will have a great impact on the cost of the short haul segment. The key element of the equation is the demand for feed and the resulting division of the total point-to-point fare between the two carriers involved. The point-to-point fare is what is important to the consumer in small town U.S.A. and how the fare is ultimately divided between the carriers is of no concern to the consumer. Such fare integration is critical to (1) increasing use of air service in small town U.S.A., (2) increased profitability of the small carrier and (3) reduced subsidy of the government.

THE TRANSFER FROM CAB TO DOT AND SMALL TOWN U.S.A.

The EAS system involves a number of players involving (1) the EAS carriers (2) the major carriers, (3) the CAB and/or DOT and (4) the consumers in small town U.S.A.

The government invariably or by definition has large complex departmentalized staffs of professionally trained people nestled into a huge bureaucracy commonly referred to as Washington, D.C. The airlines, large and small, are much the same. Most are part of or have organized paid professional groups hired to work with influencing the government. We in small town U.S.A. find ourselves in a most difficult position to deal with either the airline or the government agency. However, over many years of experience we have found it much easier to work with the airlines rather than the government.

Our ability to work with the federal agency is in general terms both scary and difficult. Many times we find ourselves working with someone who is a hired public relations professional paid to make us believe we are having input when we really are not. Breaking past that front line to the real decision makers has been a real problem for years. The result is that after one has struggled to have input or be heard without success within the agency that you go to our only real local friend in Washington—the Congress. Often you are then more detrimental to your real cause that you are helpful in that you are immediately accused of applying political pressure. In fact all you are doing is trying to really be heard on something as vital as the air service of your community. Note the following quotes from the January 18, 1984 Aviation Daily:

INSULATION NEEDED

"Opinions varied on possible forms of insulation, but the Board members believe some is necessary to protect the decision-making process from political pressure with DOT. Schaffer pushed for a three-member Board with DOT, made up of presidential appointees acting in the same manner as the current Board. McConnell said, 'I don't think a call from the Hill should decide EAS or international route award issues, so some form of insulation is necessary.' The members did not address Dole's idea of insulation, but her plan—calling for administrative law judges with the power to remand given to the secretary or assistant secretary has been criticized by some industry observers. They say that giving remanding power to the secretary or assistant secretary does not properly insulate law judges from pressure."

In conclusion, whatever you do in sunset legislation or regulation, carefully consider the design and implementation of a system without DOT that clearly establishes a simply way for small town U.S.A. to be heard. Things have been some better recently in the EAS program of the CAB but they should and could be even better. Take the steps now to insure a meaningful system of input by small town U.S.A. that is at least as good if not better than now in the new DOT. We are terribly fearful that this will not happen. Please prove us wrong and make it happen and you will have provided a great service to small town U.S.A.

REVIEW OF EAS CARRIER CONTRACTS

The policy of the board is to review the contract for service to EAS points every two years. My solid position on this issue based on 30 years experience in a small business and observing the trauma such a system has placed on Big Sky Airline owners and management is that two years is much too short. It should be at least three years and four would be even better.

Big Sky is a carrier serving a full system of EAS points in Montana and North Dakota and these points represent a very large portion of their entire business. This type of business requires a large investment in fixed costs in equipment, facilities, management personnel and investments in the marketplace.

Throwing all of that up in the air in a "go"-"no go" position at the direction of the federal government every two years is totally unreasonable from a business point of view. Much of the required investment is buried and its full recovery if the contract is lost in two years would be impossible. Two years in my view is totally unreasonable given my prospective as a small businessman. In fact based on my experience, I would not even consider entry into such a business. The government should strongly consider increasing that time to a minimum of three years and more appropriately, four years.

SUBSIDY RATE REVIEW

The rate of subsidy for an incumbent carrier in the market should be reviewed on a routine basis every six months with a decision on adjustment (up or down) in 30 days. It is totally unacceptable that a carrier has such a long drawn out and complicated system for subsidy review that in some cases risks the entire route be opened up to allow for review. Such a system keeps the traveling public in small town U.S.A. in a turmoil and the incumbent carriers board rooms in a precarious economic position.

Numerous things can happen which are beyond the control of anyone which would justify some subsidy adjustment in far less than a two year's time.

The sharp downturn of the total United States economy is but one example. My home area was especially hard hit by this downturn, coupled with the lowering of the price of oil and gas far below industry projected levels. This is due to the extremely high degree of energy exploration and associated developments in all of Eastern Montana, Western North Dakota and Northern Wyoming. This increased the subsidy need of our carrier and was not the fault of anyone or in the control of the carrier or the communities. In a like manner the economy of this region could bounce back much faster than other parts of the nation which would reduce subsidy need.

It seems obvious to me that periodic review is needed without the threat of total disruption of service and change of carrier. My suggestion as stated earlier is every 6 months.

CAB TIMING ON REGULATORY DECISIONS

The CAB throughout its history has had a record of taking a long time to decide issues. There is certainly something to be said for being thorough in one's analysis but anyone in small business will tell you time delays and red-tape are horrible enemies.

The guidelines call for a carrier review to be completed in 90 to 120 days. This seems logical and is an acceptable time line. Yet we in our city had a review of our incumbent carrier for subsidy adjustment and authority to continue as the EAS carrier start in June of 1982 and be completed in September of 1983. I believe the carrier selection was completed in May 1983 and subsidy in the fall of 1983. Yes, 15 months, not 120 days.

The carrier throughout this entire time was held in an uncertain position as to both new subsidy rate and the right to continue as the carrier. The communities future air service was also up in the air the entire time.

Such delay could easily have forced a less dedicated and/or less committed carrier out or business and left the area out of air service or at best in a posture of seriously disrupted service. We in small town U.S.A. find this to be totally unacceptable. It must be improved and the procedure somehow streamlined to meet the 120 day timeline.

THE QUESTION OF OPEN ENTRY INTO A MARKET REGULATED THROUGH SUBSIDY

The EAS program is now administered in such a way that any carrier not seeking subsidy is completely free to enter all or any part of the market area of a subsidized carrier. I fully realize that any restriction of such entry would conflict with the concept of total deregulation. However, such entry without a doubt drives up the cost of subsidy of the carrier providing the EAS service. Neither the incumbent carrier or the community has any control over the situation.

One such case involves my community. The incumbent EAS carrier is providing a pattern of service for several communities with a subsidy need for the entire group. In the middle of this a new carrier entered with air service to an additional non-EAS hub at my city only. This is admittedly good for my community but it raises all kinds of problems for the EAS carrier and other cities.

Traffic diversion immediately occurred from the incumbents largest city and thus had a significant impact in terms of their total revenue and passenger generation. Thus subsidy need immediately changed as their profitability decreased. In addition, the EAS service by the incumbent was placed in a tenuous position for not only my city Williston but the remainder of the system.

Neither I nor Williston take a position against entry of the new carrier to our city providing additional air service to our EAS carrier to a new hub. I do raise the question of the impact on the EAS system of allowing this to happen. This is not an isolated case in that it is indeed happening in many other locations under similar circumstances.

Indeed, I suggest that maybe there should be some review of unrestricted entry into areas where an EAS carrier is providing subsidized air service under a contract with the government. The entire issue nationally needs some review and I don't stand before you with the answer but I feel I would be remiss to not raise the question.

THE EAS PROGRAM BEYOND 1988

Provisions should be made now to study the future of the EAS program beyond 1988. It is presently targeted for termination at that time. The appropriate time to study the question of the desirability of (1) elimination or (2) modification and/or continuance of the program beyond that date is soon.

The government should thus begin now to make the resources available for such a study to allow for completion of the work in the next 24 months or not later than early 1986.

This would provide sufficient lead time for all of us to plan for the full elimination of the program or for implementation of a new program in 1988. Any less lead time would be inadequate and unfair to all in planning for such an important part of the future life of our communities.

The study should clearly address the question of the consequences of elimination of the program in the small cities of the United States. Should the program be continued it is important to place the appropriate parameters on it to meet certain prescribed needs. The study effort should directly involve elements of (1) the government staffs (CAB, and/or DOT), (2) the Congress, (3) small town U.S.A. and (4) the incumbent EAS carriers.

I very strongly recommend that provisions be made for such work and that we from the small city have an inside involved role in the work to be completed. After all, it is our future, air transportation that is at issue.

CONCLUSION

In conclusion I ask you for attention to the following:

(1) Immdiate attention should be given by the Congress to all but guarantee that transfer of functions from the CAB to the DOT upon sunset be orderly and smooth to insure continuation of the essential air service program.

(2) A well designed system should be set up within the DOT to allow the small communities in the essential air service program an opportunity to be heard and make meaningful input as regards the air service in their community and elsewhere. Meaningful involvement of small town U.S.A. should be just that and nothing less.

(3) The government staff people responsible for the small community air service program can and should take pride in the fact that the program is functioning quite well. However, the system is not without its problems and some hard looks should be taken at major issues such as size of hub adequate for essential air service, more complete integration of small town U.S.A. in long haul low fares of the majors, expedited timing as regards the EAS system, freedom of competition with subsidized carriers thus driving subsidy need up, and other such issues raised in my testimony. I tend to agree with Member Schaffer calling the essential air service program "the most effective efficient endeavor that the board has undertaken" and Chairman McKinnon calling it a "smooth operating program". (Aviation Daily January 18, 1984). However, I take exception with Member Smith saying it is "stable to the point where I do not see any need for changes". There are some needs for change in my opinion and we should work to fine tune the system to accommodate such change.

(4) Provisions should be made now to thoroughly study the EAS program's future beyond 1988. Such work should be fully completed by early 1986 and small town U.S.A. should be deeply involved from start to finish in the study to eliminate or reformulate an EAS program beyond 1988.

Mr. MINETA. Please proceed.

TESTIMONY OF JACK K. DANIELS, AIRPORT MANAGER, SLOULIN FIELD INTERNATIONAL AIRPORT, WILLISTON, N. DAK.

Mr. DANIELS. Good afternoon, sir.

Mr. MINETA. Good to have you here.

Mr. DANIELS. I would like to point out to you, sir, that what you have before you today is democracy in action. I am an individual representing a city, without any support from anybody.

Mr. MINETA. Obviously you have the support of Williston, N. Dak.

Mr. DANIELS. I sure do.

Mr. MINETA. Your full statement has been made a part of the record, so please proceed in your own fashion, Mr. Daniels.

Mr. DANIELS. All right, sir. Essentially my concern for the issues that stand before the committee at the moment can best be demonstrated by the fact that I am here, and I have hastily prepared a statement which you have been presented with, and I would like to have you accept my apology for the errors, omissions, and some of the grammar that may be forthcoming in it.

Mr. MINETA. No problem.

Mr. DANIELS. I didn't have time to really get it improved on. Rather than sit here and read 18 pages of diatribe discussing the issues before you, I will highlight what I consider to be five of the priority points in the dialog that I have laid on you.

First, we must come up with a means to provide some equity in the fare structures now being offered the traveling public. The wide range of fares from 10 to 15 cents per seat-mile to as much as four and five times that, that is provided for rural America, needs some attention.

In that regard, I suggest that the durum wheat that is grown in North Dakota that makes the pasta that is enjoyed by the people in the megalopolies of this country doesn't cost any more for them to enjoy, a pizza, than it does for me.

There is evidence that the regional and trunk carriers are making some inroads into this issue, but it still needs some attention. My statement identifies some things that are taking place, some things that have taken place as recently as the last 30 days.

The second is the transfer of the CAB into the DOT, and that must be watched very carefully, in my judgment. This issue is covered on pages 11 and 12 of my testimony, and I would call your attention to a recent quote on page 12, which shows that there needs to be some input from the people.

The hue and cry for isolation from politics is an insult to the intelligence of the people that are to receive the benefits or nonbenefits of the orders coming out of the CAB. It is, after all, the people, not the bureaucrats, who must live with what comes from all of this. Field hearings conducted by people who do not already know the answers, is the way to get good orders that will not need political input.

The third issue then is the entire EAS program needs to be revised to provide for 3- to 5-year contracts with a 6-month review of the subsidy need, without opening up the entire issue of rebidding, and possible loss of everything by an incumbent carrier. As a participant in the scheduled air transportation business since 1954, with the onslaught of the Seven States Area Case, as it affected scheduled air service in my community, it seems to me that a 2-year contract, with the commitment that must be made by a carrier who has been created to provide service in an undefined or rural area is not long enough.

Subjecting that same company then to a review of its subsidy need at the risk of rebidding is not, indeed, in the best interests of the longevity of that company. A 6-month review ought to come forthwith. If nothing need be changed, so be it, and it doesn't need to take 15 months to determine whether the subsidy adjustment is called for.

Fourth, the CAB and/or its replacement must immediately start complying with the mandate in the deregulation act calling for 120-day decision times, not the 15 months that have been handed to the EAS carrier serving my community. The city of Williston has several thousands of dollars, it can ill afford, invested in a replacement carrier in an effort to keep it alive and going. We do not want to be constantly changing carriers and going through a carrier selection process, the same as the community of Jamestown, N. Dak., since the onslaught of the EAS program.

Page 15 identifies an additional problem that needs some consideration and study. It is an issue that comes from some degree of regulation through subsidy. We are not involved in a totally unsubsidized or deregulated environment.

Based on some comments that were made this morning, I would add, additionally then, that the natural decline in boardings following the 1978 deregulation act is just that. Any community that was served by a major carrier that lost that carrier's identify in his town, and had it replaced with smaller aircraft, was bound to see a marked reduction in usage.

It happened in my town, it happened in many others. I think that stigma is now disappearing, and that you will see a marked increase in the number of passengers using air service as the stability of the service provided comes to the surface.

Communities are now involved, in additional assistance financially, I think, to the carriers, through reduced terminal rentals, landing fees, parking rates, extended credits, et cetera. In my judgment I would ask that you please do not attempt to enact any legislation that would call for the States getting involved in direct subsidy. The scheme of this whole program, as I understand it, was to eventually create an environment in which the air carriers that are serving small town units can operate without a constant Government handout.

With that, then, I would call your attention to the conclusions that are in the document that I have submitted, and ask that attention should be given by the Congress to all but guaranteed that transfer of the functions of the CAB to the DOT upon sunset, be orderly and smooth, and to insure continuation of the essential air service program.

A well-designed system should be set up within DOT to allow small communities in the essential air service program an opportunity to be heard and make meaningful input as regards the air service in their community and elsewhere.

Meaningful involvement of small town USA should be just that and nothing less.

The Government staff people responsible for the small community air service programs can and should take pride in the fact that the program is functioning quite well. However, the system is not without its problems, and some hard looks should be taken at major issues, such as, is the size of the hub adequate for essential air service.

More complete integration of smalltown U.S.A. into the long haul, low fares of the majors, expedited timing as regards the EAS system, freedom from competition from subsidized carriers, thus dividing up subsidy need, and other such issues raised in my testimony.

I tend to agree with member Schaffer, calling the essential air service program the "most efficient endeavor that the Board has undertaken," and Chairman McConnell calling it a "smooth operating program"—Aviation Daily of January 18.

However, I take exception with member Smith saying that it is "stable to the point where I do not see any need for changes." That is not the case. There are some needs for change, in my opinion, and we should work to fine tune the system to accommodate such change.

Four. Provisions should be made now to thoroughly study the EAS program's future beyond 1988. Such work should be fully completed by early 1986, and smalltown U.S.A. should be deeply involved, from start to finish, in the study to eliminate or reformulate an EAS program beyond 1988.

With that, I will submit myself to cross-examination.

Mr. MINETA. Thank you very much, Mr. Daniels, for a very fine and complete statement. I am wondering if you could give us a quick thumbnail sketch of your experience in Williston since deregulation.

Mr. **Daniels**. Yes. I think a quick analysis of it is that the situation has improved immensely. We fought for 25 years to get continued air service by Frontier Airline. Big Sky Airlines was selected as a replacement carrier. We were given an adequate number of seats as a result of the EAS determination.

Following that then, after about 18 months, we got another commuter, Pioneer, operating into Williston, so we now have twice as many flights per day as we had prior to 1978. The anxieties that are associated with that is that Pioneer is serving Williston on a totally free enterprise concept, and Big Sky is serving Williston under a subsidized EAS concept. Where that leaves Williston, sometime down the road, creates some anxious moments for us.

If we can assume that Pioneer will continue to serve us, then we have some strength. Pioneer, however, is free to leave at will. It arrived at will, caused a few problems at our airport as far as space, and ways to deal with them. It has been dealt with. We are enjoying, very much, the service that is being provided by our EAS carrier and a free enterprise commuter in the form of Pioneer.

Pioneer just recently announced that they are operating as a Continental commuter. Any identity with the Continental Airlines of the United States of America and Williston, N. Dakot., has got to be a plus. How long it lasts would be the only anxiety.

Mr. **Mineta**. Roughly how many passengers are enplaned?

Mr. **Daniels**. Around 10,000 annually. It ran from a high, I think, in 1982, when the oil industry was going full blast at our Williston Basin, of 11,000 to last year of 9,000 plus.

Mr. **Mineta**. In your testimony you have provided a good analysis of how deregulation has led to a system of hubs dependent on feed traffic from smaller communities. Have Williston and other small North Dakota points become a part of the larger carriers' feed networks, and has North Dakota become, as you describe, a "battleground" for feed traffic?

Mr. **Daniels**. Yes, it has. The most recent development was the institution of a joint fare concept with Northwestern Airlines and Big Sky, which provides service into a major hub, Minneapolis, if you will, at a reasonable rate. One of the anxieties that we have in North Dakota in regard to this whole program is even at that, it costs us $100 to get from my town in northwestern North Dakota to Minneapolis as the hub, but I can travel from Los Angeles to New York for $100 as well.

There is some disparity there someplace. It's better than it has been, and I think that this battleground, if you will, for a fee will produce some reasonable rates, that I am willing to pay. I am willing to accept, and I think there are people that are willing to accept, some degree of additional costs associated with living in rural America, but not four or five times what it is going for other places.

Mr. **Mineta**. You seem to have some concerns that when the program is transferred to the Department of Transportation, the relationship between the small communities and the Federal Government will not be as good as it is now with the CAB.

I have heard from many people that CAB has had a good and active program of contact with the community, and I certainly want to see a continuation of a good working relationship between the Federal Government and the communities. Since DOT has yet to demonstrate that they have a firm plan in this area, I have concerns that the community relations aspect of EAS will fall through the cracks. What would you suggest so that DOT will have a good working relationship with the communities when they take over the EAS program?

Mr. **Daniels**. Well, I wouldn't pretend to tell the people in DOT how to run their shop at the moment. I would like to have them tell me how they would like to do it immediately, and then if I don't like it, we will get involved in some discussion.

Mr. **Mineta**. We will have to wait for the next chapter, then.

Mr. **Daniels**. No. Seriously, I don't know how I could go about doing that, unless you just pick up the EAS program and what is left of the CAB, and put it over there, fund it as a line item of the DOT budget, so be it. If DOT wants to come up with some other concept, and reorganize the CAB, do a lot of other things that tend to happen when those kinds of things take place, then it could get lost and the whole works could fall through a crack.

The Civil Aeronautics Board, as a single item function of DOT, would disappear. I have been in the offices of the Department of Transportation just looking around for some people, when it was formed. I know where the CAB is. It has been there a hell of a long time. I can find it, and I can find somebody in that building. I don't know how I would do it at DOT. Take a couple of days off and just go looking.

Mr. **Mineta**. We will give you a map and a directory.

Since the EAS program is a subsidy from the general taxpayer to specific communities, should the EAS program be changed to require the local community to put up some of the subsidy?

Mr. **Daniels**. I don't think so. I think that historically the United States of America has bound itself together to provide public service transportation enhancement from the land-grant railroads to today, and the waterways, the Metro systems, and all of the things in between.

Somehow or another it seems to me that Middle America, rural America, small town U.S.A., would do a lot better job of surviving without the assistance of the megalopolies of this country, than the other way around. Those people, the majority, the general public, if you will, ought to be more than willing to make a contribution, particularly of the magnitude that we are talking about in this instance, just to keep the system going.

One of the things that has never been said yet, in this whole discussion this morning, is getting from my town to your town is one thing, but you getting from your town to my town hasn't been considered. The people in New York or in the megalopolies, the commercial hubs of the universe as we know it, need to come to my town, and we have got to provide that they should be willing to make a contribution for the ability to do that expeditiously, timely, and with some degree of reasonableness in cost.

It is a two-way street.

Yes; I want to get out of town, yes, the general public wants to get to my town, for some reason. That then should enhance their willingness to make some contribution to assist them that would allow them to continue to be able to do that.

Mr. MINETA. Thank you, Mr. Daniels. Mr. Packard?

Mr. PACKARD. Thank you, Mr. Chairman.

The concept that you described in Williston as it relates to the free enterprise system in conjunction with the subsidized system is intriguing to me. I am not sure how much of this is going out throughout the whole country in terms of the subsidized system. I haven't thought in terms of it being side by side at the same facilities.

In analyzing Williston's situation, do you think that the free enterprise system—Frontier, was it?

Mr. DANIELS. Yes.

Mr. PACKARD [continuing]. Frontier would be able to provide the additional service that the subsidized system is doing at less cost than what the subsidy is now?

Mr. DANIELS. I think we ought to back up a little bit. It is Pioneer that is operating as a free enterprise carrier.

Mr. PACKARD. OK, Pioneer.

Mr. DANIELS. Could they do that? I guess no.

Mr. PACKARD. Is it necessary to have in Williston both systems available to the riding public, the subsidized system as well as the profitmaking system?

Mr. DANIELS. I don't know, and I have been thinking about this for almost 2 years. We are going into our third year now of Pioneer competing, if you will, with the essential air service carrier. As the stability is enhanced, Pioneer will accommodate about 60 percent of the traveling needs of the people serving Williston. The balance will be unaccommodated, if Pioneer is the only surviving carrier.

Mr. PACKARD. Are they in competition with each other in terms of service?

Mr. DANIELS. For Denver traffic, to the Denver hub, yes.

Mr. PACKARD. They both serve the Denver traffic?

Mr. DANIELS. Big Sky, through connections at Bismarck and Billings, to Frontier and Western, and now United at Billings, Mont.

Mr. PACKARD. Other than that route, there is not an overlap of service?

Mr. DANIELS. No.

Mr. PACKARD. In your judgment, do you think that the way it is being operated there is fair to all concerned?

Mr. DANIELS. In this experimental state of the art, yes. I would say that it has given both the comunity, the carriers and the board an opportunity to observe this kind of environment. The essential air service program got kicked off with an EAS determination for Jamestown, N.Dak. Since that time there have been three carriers go in and out of Jamestown.

The third one is now on board, and hopefully going well and it is going to prosper and survive. Williston sits in a unique position because it is the strong point for downline other communities in eastern Montana that depend on us to provide them with service. If Williston dropped out of that system, there would be seven other cities that would go with it, or the subsidy need would skyrocket, if you attempted to continue that.

We are making a major economic contribution to the welfare of the service in five other cities in that area, Montana cities. When we got into the EAS deliberations, it was determined that the hub-

and-spoke concept was the best way to serve this thing most economically. Extensive study was done.

Testimony was taken in the field by members of the board, and some of Mr. Coleman's and Mr. Murphy's staff were out there listening to the talk. We argued back and forth for several days about how to go about it, and the program was set in place. It was working well, and along comes this new element that is hanging on, but in the meantime it has imposed horrendous burdens on the existing carrier, Big Sky, to stay financially viable, because of the traffic that was drained off.

Mr. **Packard**. In your judgment, is the subsidy system, set up as a network to connect small town U.S.A. together, or is it a network primarily to service the small town to the big town and vice versa?

Mr. **Daniels**. Small town to big town. There is very little need to commute between small town and small town. Those who want to do that in our community, Bismarck, the State capital 170 air miles away, that do that, are willing to pay $90 one way, versus drive 5½ hours.

Mr. **Packard**. Is Bismarck the closest major airport from Williston?

Mr. **Daniels**. Yes, sir.

Mr. **Packard**. Thank you, Mr. Chairman.

Mr. **Mineta**. If I could follow up on that, how far is it from Williston to Billings?

Mr. **Daniels**. About 330 road miles, and it is 285 air miles. Billings is about a 7½-hour drive, and Bismarck is about a 5-hour drive.

Mr. **Mineta**. For me to get a picture here now, you have an EAS carrier going from Williston to Bismarck?

Mr. **Daniels**. Yes.

Mr. **Mineta**. And then you have a nonsubsidized carrier going from Williston to Billings?

Mr. **Daniels**. No.

Mr. **Mineta**. No?

Mr. **Daniels**. We have got Billings on the one hand in the west and Bismarck on the other hand in the east, and Williston sitting up here. Five communities are fed out of Williston on a linear route back into Billings, and those are gathered up and brought through Williston into Bismarck. Then Pioneer serves Williston direct to Denver.

Mr. **Mineta**. I see. And how far is that from Williston to Denver?

Mr. **Daniels**. 590 miles.

Mr. **Packard**. Excuse me, Mr. Chairman. Is Grand Forks a major airport, one that operates the non——

Mr. **Daniels**. Yes, Frontier, Northwest Airlines, as well as Republic.

Mr. **Packard**. How far is Grand Forks from Williston?

Mr. **Daniels**. 310 air miles and about 404 road miles.

Mr. **Mineta**. What kind of traffic is there on that Williston-Denver unsubsidized route?

Mr. **Daniels**. They are averaging about—let's see, they split almost 50-50, 10,000 boardings, so about half of them are going to Denver.

Mr. **Mineta**. That is a 5-hour flight?

Mr. **Daniels**. No; it is about 2½ scheduled; 590 miles in the Metro, 3.

Mr. **Mineta**. And then you say there is a Billings-Denver flight as well?

Mr. **Daniels**. Yes. You connect to either United or Frontier at Billings to go to Denver, or you connect with Frontier at Bismarck to go to Denver, so it is possible to get out of Williston in three different directions to get to Denver. Then in Denver you can get the $99 ticket to Honolulu.

Mr. **Mineta**. Right now is a good time to be doing that.

What is the time element from say Billings down to Denver on United, or from Bismarck down to Denver?

Mr. **Daniels**. You are looking at about an hour and 15 to 20 minutes scheduled time. The timeframe is pretty close, within 30 minutes of each other, speaking of which, if I might, in the recent past the board did a real extensive time study analysis of when do you get airline service, identifying with the times that it took, the miles that it took, and a lot of the other elements, which you are all seeking some input on this morning. I suggest that you go over there, have somebody go get it and bring it over so you could look at it.

As I recall it, it was a pretty comprehensive look-see into when does an area no longer have air carrier service. It is *x* distance away, *x* time away, under *x* environment, and that might help you to reach some kind of a criteria.

I have a lot of problems in continuing to justify our service in my town without the people making a substantial contribution to it, but they are, and you can't, in my judgment, use the yardstick of an hour and 10 minutes. An hour and 10 minutes in this environment versus an hour and 10 minutes in my environment, I am going to a picnic. You guys are getting a headache.

I can get in my automobile and drive down the road and enjoy life while you are busy looking around for who is going to hit you next.

The simple fact that you are comparing time is not a real good yardstick, in my judgment.

Mr. **Mineta**. Prior to 1978, prior to deregulation, what carriers did you have?

Mr. **Daniels**. Say that again.

Mr. **Mineta**. Prior to deregulation in 1978, what carrier did you have?

Mr. **Daniels**. Frontier. We started out with service by DC-3's in 1954. The petroleum industry, and its development in the Williston Basin, fostered that, and that was a spinoff of the *Seven States Area* case that was handled out in Nebraska in 1953 and 1954. Frontier continued to service with DC-3's until they come on with the Convair 340's. Those were converted to the 580's. We had the 580 service until 1970, or 1969; mid-1969 Frontier pulled out of Williston.

A commuter called Apache Airlines, operating out of Arizona, came up there and served us with an 11-passenger converted Dehaviland Dove. They lasted 6 months. When Frontier came back, they came back with a Twin Otter. They continued to serve that area knowing that deregulation was coming, until it was possible for them to get out. Following deregulation in 1978, they abandoned Williston in mid-1980.

Mr. **MINETA**. What kind of frequency did you have with that Twin Otter?

Mr. **DANIELS**. We had two flights a day each way 7 days a week.

Mr. **MINETA**. And now with Pioneer and Big Sky what do you have?

Mr. **DANIELS**. We are getting six flights, three departures from Pioneer, four departures from Big Sky east and west, two in each direction, three south, 5 days a week. You get one on Saturday by Pioneer, two by Big Sky, none on Sunday by Pioneer, two by Big Sky.

Mr. **MINETA**. Well, Small Town U.S.A., thanks a million.

Mr. **DANIELS**. My pleasure, sir.

Mr. **MINETA**. We appreciate it very much. Thank you.

Mr. **DANIELS**. I enjoyed being here.

Mr. **MINETA**. The subcommittee stands in recess until tomorrow morning at 10 a.m.

[Whereupon, at 12:55 p.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, February 1, 1984.]

REVIEW OF AIRLINE DEREGULATION AND SUNSET OF THE CIVIL AERONAUTICS BOARD

(Essential Air Service Program and Small Community Air Service)

WEDNESDAY, FEBRUARY 1, 1984

House of Representatives,
Subcommittee on Aviation,
Committee on Public Works and Transportation,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:15 a.m., in room 2167, Rayburn House Office Building, Hon. Norman Y. Mineta (chairman of the subcommittee) presiding.

Mr. Mineta. The subcommittee will please come to order.

We are very pleased to have this morning as our leadoff witness a former colleague of ours right here on the Public Works and Transportation Committee, who has since been elected to the U.S. Senate, is now a member of the very powerful Appropriations Committee, the Environment and Public Works Committee, and the Joint Economic Committee, or I really should say a powerful member of those committees. It is great to have our colleague, Senator James Abdnor, with us.

Senator, the full text of your prepared statement and the statement of Governor Janklow will appear in the record at this point.

[Statements referred to follow:]

STATEMENT OF THE HONORABLE JAMES ABDNOR
before the Aviation Subcommittee of
the House Public Works Committee
February 1, 1984

Mr. Chairman. It is indeed a pleasure to appear before you and the other members of the Aviation Subommittee today. I have many fond memories of our past associations here in this room and it is great to have the opportunity to greet old friends and meet new ones.

My appearance today is prompted by a special request by the Governor of South Dakota, William Janklow. Governor Janklow had planned to be here today to personally persent his strong views on the problem and shortcomings of the current Essential Air Service program but conflicting demands and poor air service connections from Pierre make his appearance impossible. I would like to emphasize the last point! However his inability to appear personally in no way diminishes his concerns in this area and I am honored to have the opportunity to present a copy of his testimony for your consideration. I believe that you will find it brief, concise and an effective argument for Congressional reconsideration of the current EAS program.

Many of you in this room were colleagues of mine when Congress first considered airline regulation legislation. As you will recall, I opposed it strongly then and I continue to do so today. Many assured me during the initial consideration of this legislation that states such as South Dakota would be protected as we progressed from a regulated airline industry to a deregulated one. The Essential Air Service program was hailed as a protective device to help smaller communities cope with the uncertainty of airline service in a changing marketplace.

I shall not go into describing the "horror stories" that small communities in my state have experienced as a result of EAS proscribed remedies. I would merely like to summarize Governor Janklow's testimony as it clearly reaches the heart of this entire matter.

For background, let me first describe the problems which the Governor had hoped to address this morning. The state capitol of South Dakota is located in Pierre. Pierre is located on the Missouri River in the center of our state. This locality is quite isolated and is not served by an Interstate Highway.

Sioux Falls, our largest city is 221 miles away to the east. Rapid City, our second largest population center is located 180 miles to the west. As you can imagine, the quickest transportation system is scheduled airline service. For nearly fifty years Western Airlines has provided direct air service east to Sioux Falls and on to Minneapolis and west to Rapid City, and on to either Salt Lake City or Denver as well as the west coast. This service was provided by B-737's configured to carry 121 passengers.

This was a summary of air service to and from Pierre until last December. What we have now in the Pierre-East market is as follows; a small, unpressurized Beech-99 aircraft with no lavatory facilities and able to accomodate only 15 passengers and this is restricted even lower during hot weather situations (not uncommon in South Dakota during the summer months) and unable to fly above most weather disturbances. Further there is a directly-related reduction in baggage and air freight capacity to and from our state capital.

As a result of this dramatic change, the number of seats offered and the quality of the service provided from Pierre east is inadequate to meet the needs of people traveling to/from Pierre. Governor Janklow and I believe air service is so inadequate that it adversely affects the functioning of our state government and the ability to serve our people.

Governor Jankow points out in his testimony that we in South Dakota are not claiming that the only solution is to reinstitute air service in the Pierre-east market by 737's or other large aircraft. What we are asking is a review of the process that has resulted in this level of air service being imposed on the people of South Dakota.

As I was a member of this esteemed committee when the Essential Air Service program was enacted, I know that the transition from major carrier to commuter service was to supervised by the Civil Aeronautics Board (CAB) to ensure a smooth transition and a reasonable level of service.

You will note that Governor Janklow gives a precise accounting of passenger load levels and the inability of the current carrier to handle current demand given the size of their aircraft. In addition airfares are up to nearly double what they were on December 1st and as the nation's economy improves demand will grow as well. Our current carrier, which does a fine job with its current resources, jsut cannot meet that demand with such small aircraft. As the Governor points out, this is further compounded by the fact that as the state capital, Pierre must be accessible in the same manner as our nation's capital. Such access to Pierre is now hindered.

At this point, I should like to refer directly to Governor Janklow's testimony. You will note on page 8, he proposes action by Congress to address the problems which Pierre and other small communities across the nation are experiencing under the current EAS program. In summary they are, 1) the carrier withdrawal notice from communities, now at 90 days, is too short; 2) that Pierre, as a state capital, should recieve special consideration and he has submitted proposed language to accomplish this goal on page 10 of his testimony; and 3) as a result of this proposed change in the current law--small communities would be assured of access to our national airport system. As the governor so aptly points out, "We are not demanding a Cadillac; all we want is a Chevrolet."

In summary, Governor Janklow has pointed out that the current response of the Federal Government has "thwarted" the development of an adequate air service plan in the Pierre-east market by imposing overnight a small, carrier unable to meet the needs of our state capital which then places a downward pressure on demand for such service.

Governor Janklow refers to this as the "chicken and the egg" syndrome and rightly so. You cannot encourage greater air travel by having disrupted service, unpressurized and cramped planes and higher fares. This is not "transition" it is elimination. I believe that Governor Janklow's proposals merit the attention of this committee and I regret that he is unable to be present to address you directly. It is my hope that you will carefully consider his testimony as I believe it outlines in no uncertain terms the problems which our state has encountered and I join with him in urging a comprehensive Congressional review of the current Essential Air Service (EAS) program.

Thank you, Mr. Chairman, for your interest in the concerns of South Dakotans regarding this vital issue.

Statement Of

WILLIAM J. JANKLOW
GOVERNOR
STATE OF SOUTH DAKOTA

Mr. Chairman and Members of the Subcommittee:

Good morning. I am William J. Janklow, Governor of the State of South Dakota.

Mr. Chairman, I'm not aware that you or any of your colleagues have recently flown to Pierre, South Dakota, our State capital, or that you're planning to visit us there in the near future. So, we're here today to help you understand, vicariously, why we consider the level and nature of air service between Pierre and points East to be unacceptable. Pierre deserves better air service than we're getting there today; that's why we're asking this Committee to move promptly to develop legislation to help the people who are being hurt by our air service situation.

And people are being hurt, Mr. Chairman, economically and even physically. The market between our State capital and our State's largest city is now served only by tiny, non-pressurized aircraft, with no lavatory facilities -- planes that can't get up above the weather.

This abysmal level of air service between Pierre and points East (Pierre-East market) is a result of very recent developments. Until mid-December 1983, service between Pierre and points East was provided by Boeing 737 (121 seat) aircraft operated by Western Airlines; we now have Beech 99 (15 seat) service provided by Mesaba Airlines. As a result of this dramatic change, the number of seats offered and the quality of the service provided is now inadequate to meet the needs of people traveling to or from our State capital. We believe the service is so inadequate so as to adversely effect the functioning of our State government and our ability to serve our people.

I want to make clear at the outset that we in South Dakota are not here today to claim that the only solution to our problem is the reinstitution of service in the Pierre-East market via 737s or similar large aircraft. We understand that one of the assumptions underlying airline deregulation has been that, during the transition from a regulated to a deregulated environment, service provided to small communities by major carriers with large aircraft will often be replaced by service offered by commuter carriers utilizing smaller aircraft. We are not here to quarrel with that broad assumption or with the statutory requirement that will bring the small community air service program to an end in 1988.

However, we also understand that Congress intended, by including the essential air service (EAS) program in the Airline Deregulation Act (49 U.S.C. § 1389), that the transition from major carrier to commuter service in small communities was to be supervised by the CAB to ensure smooth transitions and preserve a reasonable level of service in small communities. Thus, the Congress recognized that application of pure deregulation principles to small community service would not be in the public interest.

Our experience in South Dakota is that the Congress was very correct to include special provisions in the Airline Deregulation Act to address the needs of small communities. However, we believe that those provisions have not, at least as implemented thus far, met their broad objectives. Thus, we support amendments to the present law to ensure reasonable small town air service and help small cities attract and retain replacement air service.

Before offering specific legislative suggestions, however, I want to describe in some detail the air service problem in Pierre and how strongly we feel about it because, Mr. Chairman, while we are very flexible on working with the Congress to develop a solution to this problem, we are not flexible in our view that the problem must be addressed.

Overview of Pierre-East Air Service Situation

Pierre is a rather isolated community. It is far removed from the two population centers of our State: Sioux Falls, our most populated area, is 185 air miles/221 highway miles to the Southeast; Rapid City, our second most populated area, is 140 air miles/180 highway miles to the West. Due to these distances and the fact that Pierre is only one of a handful of State capitals not located near the Interstate Highway System (33 miles from Interstate 90), Pierre is heavily dependent on air service. Measured on an east-west axis, Pierre is not only at roughly the midway point of South Dakota, but is also at the center of our nation. Traffic originating in Pierre has historically been split between eastern and western destinations, but with Pierre being distant from the nearest major hubs -- Denver (397 air miles) and Minneapolis/St. Paul (354 air miles); eastbound traffic slightly exceeds westbound traffic. Importantly, because Pierre passengers split between eastern and western destinations, Pierre has fundamental air service needs in each direction. A passenger with business in Minneapolis, Chicago, or other points East of Pierre is not provided with a meaningful service if the eastbound trip (already at least 354 miles to Minneapolis) must begin with a westward leg or legs to Salt Lake City, Denver or, in a few cases, Rapid City. As I will explain shortly, the fundamental needs of the community for eastbound service are not being met today under the EAS program.

Another important background fact is that Pierre, like many other communities, suffered temporary reductions in all levels of economic activity during the recent recession. While Pierre averaged over 36,000 enplanements annually during the period 1977 through 1980, this dropped to a level of approximately 20,000 annually during 1981 and 1982. In the Pierre-East market, enplanements in the 1977-80 period averaged roughly 18,000, dropping to around 10,000 in 1981-82. We are aware of no changes in the Pierre market in '81 and '82 which would have adversely affected air travel other than the recession. Passenger demand is coming back now; January 1984 enplanements in the Pierre-East market are up one-third over those of January 1983.

In this post-recession environment, we strongly believe that the CAB's acquiescence in Mesaba's Beech 99 service as a replacement to

Western's 737 service in the Pierre-East market has not only denied us the assistance in the transition to deregulation which we believe was broadly intended by the Congress, but is restricting traffic in the Pierre-East market to recession levels. (Let me note at this point that we are presently in litigation with the CAB over this situation. However, today we're not here to make arguments with respect to our disagreements with the CAB's administration of the present law, but to present our further view that amendments to the present law to ensure better service in the Pierre-East market would be in the public interest.)

Briefly, there are two serious drawbacks to the Beech 99 service which act to place an artificial cap on the level of air service in the Pierre-East market. First, it offers too few seats. Many flights, though not all, are sold out. In January 1984 the load factor in the Pierre-East market was 71%. Of interest, the CAB's EAS load factor guideline for essential air service provided via planes of 14 seats or larger is 65%; it is 50% for service provided in smaller planes. It is clear that the 71% load factor of the first full month under the Mesaba service indicates that the service provided via the Beech 99 is inadequate in terms of capacity.

Moreover, and also concerning capacity, because flights are frequently sold out, we now have the situation where people are not planning on flying because they cannot count on seats being available. For example, some of our state legislators are getting together and chartering private planes to ensure that they can fly between Sioux Falls and Pierre. Others having to do business with the State and the related Federal government offices in Pierre have taken to driving to Pierre. People are doing this even though a round trip from Pierre to Sioux Falls can take from 10-12 hours, depending on weather conditions. Thus, the level of passenger traffic represented by the 71% load factor would be even higher but for the inadequate seating capacity. Moreover, on days when the temperature exceeds 85°, FAA regulations impose weight restrictions on the operation of the Beech 99 which further reduce passenger capacity (or cargo capacity, or both).

The second deficiency is that the quality of the service offered via Beech 99 aircraft is simply not tolerable. I want to make clear that I am not here to criticize Mesaba; they are the only carrier we have in the Pierre-East market. However, the plane, no matter how well presented to the public by the carrier, provides an inadequate service. It is cramped, with no legroom. It has no lavatory facilities. Its cabin is unpressurized and uncomfortable. The cabin temperature is either too cold or too hot. Frequently it is too hot in the front of the plane while, on the same flight, it is too cold in the back. The plane is frequently not flying at altitudes above the weather. There is inadequate luggage space. We and local travel agents have heard numerous complaints about the inability of this new service to accommodate normal luggage needs. As a result of these problems, many people have told us and have told local travel agents that they will not fly on that aircraft. More importantly, there are many who, while bold enough to have tried the service the first time, don't want to try it again. In one case a Pierre businessman has decided to move his business and family to Sioux Falls solely because the reduced air service is unable to meet his needs for business travel to Sioux Falls from Pierre.

Thus, the inadequacy of the service, in terms of both capacity and quality, has depressed demand levels to below what they would be if, for example, 40 seat turbo jet service in pressurized cabin aircraft were provided. Such aircraft would not drive passengers away because of discomfort/inconvenience or confidence that there would not be enough seats available to satisfy travel plans. Thus, the uncertainty of inadequate capacity and the anxiety over uncomfortable service has, in our view, begun a vicious cycle, artificially depressing demand to a level that will discourage the institution of service by larger aircraft.

Another factor which has depressed traffic levels is fares. As of today, Mesaba's fares are nearly double Western's last round trip fare between Pierre and Sioux Falls, offered less than two months ago. These present fares are also roughly double Western's present (unsubsidized) round trip fare in the comparable Pierre to Rapid City market. That travel demand is above last year's despite such fare increases is, in our view, additional and compelling evidence that the Pierre-East market will support larger plane service.

Our final point regarding the inadequacy of the Pierre-East air service is that, in our view, all of the foregoing difficulties are much more deserving of a governmental response because Pierre is a State capital. When people choose not to come to Pierre to petition the State legislature, or present their views to an agency or committee of the State legislature, our democratic processes are diminished in quality. This is happening in South Dakota. Also, the ability of our State personnel to travel to the Sioux Falls area to provide needed services is hampered. I could speak to this point at great length Mr. Chairman, but I think its importance might be best summarized by asking you and your colleagues to consider whether, if air service to Washington, D.C. were so low as to adversely affect the ability of our Federal Government to provide services, or the ability of citizens to visit government personnel here, or your ability to fly to and from your districts to meet constituent needs, the Congress wouldn't see a clear need for action. I believe, in our Federal system, where States have a role as important as that of the Federal Government, that the Congress should ensure that our air service system operates in a manner which ensures, or at least does not hinder, the proper functioning of State governments.

Possible Legislative Approaches to the Pierre Air Service Problem

I want to turn now to our thoughts as to how the Congress could address the serious deficiencies in Pierre-East air service.

Basically, we suggest that a few refinements of the EAS program, but not an overhaul, would be appropriate.

First, we'd like to make a procedural suggestion that I think is applicable not only to our situation but probably to others throughout the country. We think that the notice period for withdrawal of carrier service is too short; it too readily lets the toothpaste out of the tube. Just as it's hard to get toothpaste back in the tube, it is hard to restore air service once lost. We think that 90 days is simply too short a time for a community or a State to obtain adequate replacement service and that the Congress should lengthen the notice period for withdrawal -- perhaps to 180 days or 270 days -- from the present 90.

Moving to recommendations for substantive changes, we believe that the air service needs of Pierre, an isolated State capital, far from any other major city or major airport, should be addressed by the Congress even if it is determined that broader reform of the small community air service program is not desirable (and, as Governor of a rural State where most communities are quite small, I am receptive to broader reforms if needed to ensure reasonable levels of air service to small communities).

We believe that one way that the Pierre problem could be resolved would be by inserting, at an appropriate point in 49 U.S.C. § 1389, a provision such as the following:

> The essential air service needs of any community which includes the capital of a state and whose public airport is not a primary airport and is located more than 125 air miles from the nearest primary airport cannot be considered as having been met unless, at a minimum, service is provided: (1) via aircraft with pressurized cabins if service was provided by aircraft with such feature at any time after January 1, 1983; (2) which would connect with other airports that served as connecting hubs before January 1, 1983; and (3) which offers sufficient seating and luggage capacity to meet the average demand for service consistent with demand during the previous five years.

If a community subject to this provision considers that its air service is not meeting that level, it would petition the CAB (or its successor, DOT) and the Federal agency would have to provide subsidy, if necessary, to ensure that the required service is provided. If, after the initiation of the service, it becomes strong enough to continue without subsidy, the agency could terminate the subsidy. (In the foregoing the terms "public" and "primary" airports would have the meanings as used in the Airport and Airway Improvement Act of 1982.)

I want to particularly note several aspects of this proposal. First, it is narrow in scope. Second, it is reasonable to require pressurized cabin service because many kinds of planes are available which meet this criteria. Third, by ensuring that connecting hubs will continue to be served, we are not insisting that service to those points be as frequent as before, but a small community would at least be confident of access to the national airport system via connecting flights. Our final criterion would avoid during the future administration of the small community air service program our recent experience in which recession-era traffic levels were given too much weight.

By focusing our proposal on these narrow factors, we hope to make clear to the Congress that we are realistic about the future of air service in the Pierre-East market. We are not demanding reinstitution of 737 service and we are willing to make adjustments. We're not demanding a Cadillac; all we want is a Chevrolet.

In sum, Mr. Chairman, we think our proposal represents sound public policy because it addresses small community air service needs in a manner consistent with the general framework of the Airline Deregulation Act. We are not asking for permanent reregulation. We are willing to take our chances that the market adjustments that will be made by the time that the special statutory provisions for small community air service expire (1988) will meet our needs in Pierre if the Federal government provides active and helpful regulatory supervision of the small community air service program in the interim.

We believe that, under the present situation, where the market is not providing adequate service, the Federal government's response (to date) has thwarted rather than promoted the development of an adequate service in the Pierre-East market (in both the long and short run). By allowing us to fall from the heights of B-737 service into the crevice of fifteen seat unpressurized service, the CAB has shown no meaningful interest in supervising the transition from regulation to deregulation in the Pierre-East market. There is no subsidized service to Pierre today, yet the service is so inadequate as to place downward pressure on demand.

Thus, we find ourselves today in a kind of chicken and egg situation which is adversely affecting the development of reasonable replacement service for the 737 service we previously enjoyed. We are deeply concerned that, due to both the seating inadequacy of and the poor quality of service available with the unpressurized Beech 99 aircraft, the present service is driving down, and may well be killing off, the true market demand in the Pierre-East market for a level of service beyond that which can be provided by the Beech 99.

The negative response of the market to our present service and the regulatory system's acquiescence (thus far at least) in it, is precisely the opposite of what we think a small community air service program should achieve. The program should provide a helping hand so that communities can have reasonable service in place when the small community air program terminates. However, at least as concerns the Pierre-East market, we haven't received a helping hand to lift us up, but a heavy hand, which has pressed down on our market demand and which may well prevent us from receiving service we can support. To call a drop off from B-737 to Beech 15 service a "transition" makes a mockery of the word and of the intent of Congress to help small communities adjust to deregulation. We are getting no help today. The tool -- subsidy -- that is supposed to be available to help small communities meet transitional needs -- is not being applied to the task at hand (there are no subsidies at all today for service to or from Pierre). We believe that legislation such as we have proposed here today is an appropriate means of correcting the situation.

Lastly, Mr. Chairman I want to emphasize that while we think our proposal has been structured so as to be sensitive to both the Congress's broad support for deregulation and its particular interest in adequate small community service, we are flexible and open to other solutions. However, we are convinced that, under our Federal system of government, ensuring that state capitals receive a reasonable level of air service, so that state governments can effectively function, is a worthy legislative objective, especially as it can be achieved, as is the case here, without significant impact on the overall aviation deregulatory scheme.

That concludes my prepared statement, Mr. Chairman. I thank you and your colleagues for your time and look forward to working further with you to find a solution to our problem.

Mr. MINETA. Please proceed.

TESTIMONY OF HON. JAMES ABDNOR, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator ABDNOR. Thank you, Chairman Mineta, Congressman Hammerschmidt, Congressman Packard. It is a real treat for me to be here today, a rather unexpected one that occurred as of late yesterday afternoon, when I received a call from the Governor's office asking me to make an appearance here today; because of the Governor's inability to get away.

As a former member of the Aviation Subcommittee, I have a lot of fond memories of my past experiences and associations here, and it is just nice to be back.

As I said, I am here at the request of Gov. William Janklow. Governor Janklow was going to be here personally, as he has strong views on the problems and some of the shortcomings of the current essential air service program. While conflicts have kept him away from Washington, he did want to talk about the poor air service in and out of Pierre, our State capital.

Let me assure you, the fact that he isn't here in no way diminishes his concern in this area, and of course I am just honored to have the opportunity to present a copy of his testimony. If I can, gentlemen, I would like to urge you to take a look at the Governor's statement—it is not a lengthy document, but one I think warrants your attention. I am sure it has been submitted and I ask that Governor Janklow's statement be made a part of the record.

Many of you in this room were colleagues of mine when the Congress first considered airline deregulation legislation. As you will recall, I opposed it strongly then and I continue to do so today. Many assured me during the initial consideration of this legislation that States such as South Dakota would be protected as we progressed from a regulated airline industry to a deregulated one. The essential air service program was hailed as a protective device to help smaller communities cope with the uncertainty of airline service in a changing marketplace.

I am not going to go into describing the horror stories that small communities in my State have experienced as a result of the EAS proscribed remedies. I would merely like to summarize Governor Janklow's testimony as it clearly reaches the heart of this entire matter.

Let me point out I remember sitting right over where Congressman Packard was sitting when former DOT Secretary Coleman appeared here. I was questioning the deregulation of the airlines and my great concern for rural States like South Dakota. I remember Secretary Coleman said to me, "Congressman Abdnor, we had South Dakota in mind when we wrote this legislation. You would have nothing to worry about." Well, they weren't exactly the most consoling words to me, but I tried to accept them as best I could.

Let me describe to you the problems that the Governor had hoped to address this morning. The capital of South Dakota is located in Pierre. Pierre is located on the Missouri River in the center of our State. The locality is quite isolated and is not served by any interstate highway.

Sioux Falls is our largest city. It is 221 miles away to the east. Rapid City, our second largest population center, is located 180 miles to the west. As you can imagine, the quickest transportation system is scheduled airline service. For nearly 50 years Western Airlines has provided direct air service east to Sioux Falls and on to Minneapolis and west to Rapid City, and on to either Salt Lake City or Denver as well as the west coast. This service was provided by B-737's configured to carry 121 passengers.

This was a summary of air service to and from Pierre until last December. What we have now in the Pierre-east market is as follows: a small unpressurized Beech-99 aircraft with no lavatory facilities and able to accommodate only 15 passengers, and this is restricted even lower during hot months. You are not able to fly above most of the weather disturbances. Further, there is a directly related reduction in baggage and air freight capacity to and from our State capital.

As a result of this dramatic change, the number of seats offered and the quality of the service provided from Pierre east is inadequate to meet the needs of people traveling to and from Pierre. Governor Janklow and I believe air service is so inadequate that it adversely affects the functioning of our State government and the ability to serve our people.

Governor Janklow points out in his testimony that we in South Dakota are not claiming that the only solution is to reinstate air service in the Pierre-east market by 737's or other large aircraft. What we are asking is a review of the process that has resulted in this level of air service being imposed on the people of South Dakota.

As I was a member of this esteemed committee when the essential air service program was enacted, I know that the transition from major carrier to commuter service was to be supervised by the Civil Aeronautics Board to insure a smooth transition and a reasonable level of service.

You will note that Governor Janklow gives a precise accounting of passenger load levels and the inability of the current carrier to handle current demand given the size of their aircraft. In addition, airfares are up to nearly double what they were on December 1, and as the Nation's economy improves demand will grow as well.

Our current carrier, which does a fine job with its current resources, just cannot meet that demand with such small aircraft. As the Governor points out, this is further compounded by the fact that as the State capital, Pierre must be accessible in the same manner as our Nation's capital. Such access to Pierre is now hindered.

At this point, I should like to refer directly to Governor Janklow's testimony. You will note on page 8, he proposes action by Congress to address the problems which Pierre and other small communities across the Nation are experiencing under the current EAS program. In summary they are: (1) The carrier withdrawal notice from communities, now at 90 days, is too short; (2) that Pierre, as a State capital, should receive special consideration and he has submitted proposed language to accomplish this goal on page 10 of his testimony; and (3) as a result of this proposed change in the current law—small communities would be assured of access to our national airport system. As the Governor so aptly points out, "We are not demanding a Cadillac; all we want is a Chevrolet."

In summary, Governor Janklow has pointed out that the current response of the Federal Government has thwarted the development of an adequate air service plan in the Pierre-east market by imposing overnight a small carrier unable to meet the needs of our State capital which then places a downward pressure on demand for such service.

Governor Janklow refers to this as the "chicken and the egg" syndrome, and rightly so. You cannot encourage greater air travel by having disrupted service, unpressurized and cramped planes and higher fares. This is not transition, it is elimination. I believe that Governor Janklow's proposals merit the attention of this committee and I regret that he is unable to be present to address you directly.

It is my hope that you will carefully consider his testimony as I believe it outlines in no uncertain terms the problems which our State has encountered and I join with him in urging a comprehensive congressional review of the current essential air service program.

Gentlemen, I thank you for giving me this attention and time. I appreciate your concerns in the interests of South Dakota.

Mr. MINETA. Thank you very much, Senator Abdnor. Governor Janklow would be very proud of the job you did as his representative.

Senator ABDNOR. You are very kind, Mr. Chairman.

Mr. MINETA. Let me get to this whole issue about the State capital and the State service that it is receiving and whether or not it should be entitled to better air service than other cities in the essential air service program. The rationale for this proposal is that without enhanced air service to the capital, that there is less interaction and communication between the citizens of the State and their government.

Senator ABDNOR. Yes.

Mr. MINETA. A good point. Now, South Dakota is the only State that we have heard from in this regard, and yet there are other State capitals that receive less service than Pierre. Santa Fe, N. Mex., and Montpelier, Vt., have no air service to other cities in their State, although they do get served to other air service points outside the State.

Senator ABDNOR. May I interupt?

Mr. MINETA. Sure.

Senator ABDNOR. I ask you to yield a minute. I have no idea how far they have to go to find another main center for an airport. In South Dakota a 4-hour drive when you are starting out in the morning is quite a start. Of course, if you are fortunate enough to have your own plane, it is quite possible. I was home just a week ago. I crisscrossed the State twice using my car, and that takes an awful lot of time, by the time you drive from Sioux Falls to Rapid City twice in 1 week's time. I could have hired a plane, I guess I could have charged it to the Federal Government, but it is an awful expense to pay $500 or $600 for chartering a plane. It is a very difficult thing.

If I want to go from Rapid City to Sioux Falls, I might have to go to Minneapolis and back. It is a long ways to get around. Of course, I am talking about the whole State in general, but specifically the business of going in and out of Pierre is difficult.

Legislators who are busy are banding together, and chartering planes to take them. If enough people can do it, they probably can afford it, but it is not very convenient. There are some things, Mr. Chairman, that I have always felt that rural States are entitled to and meant to have. You know, if we took the same attitude on interstate highways, we wouldn't have any going through the States.

We probably wouldn't have first-class postage out in our way either, because I don't know if we could afford to pay in some of those rural areas. We think people are entitled to some consideration. We think South Dakota is important enough to have some basic services from the Federal Government.

Mr. **Mineta**. Two and a half years ago, in hearings on airline subsidies, we heard testimony with respect to South Dakota, from Congressman Daschle. He was saying that at that time, many cities in South Dakota just didn't have the traffic to support larger aircraft service, and at least at that time, we heard that 4 of the South Dakota cities that Republic Airlines served at that time were generating 7 to 12 enplanements a day. Congressman Daschle felt that the future of aviation in South Dakota was with the commuter airline industry.

Would you agree with Congressman Daschle's assessment of 2½ years ago, that many South Dakota points are simply too small to sustain large aircraft service, and that commuter service is probably more appropriate for these markets?

Senator **Abdnor**. I am not arguing that. That is not what my testimony said. I am speaking I guess specifically of Pierre and the capital. As a matter of fact, some of those other places are doing better, I think, than Pierre right now.

We will leave numbers with the committee on the passengers enplaning at Pierre. I used to travel there constantly. I was always amazed at the number of people that would get on and off at Pierre.

As the Governor points out:

> Another important background fact is that Pierre, like many other communities, suffered temporary reduction in all levels of economic activity during the recent recession. While Pierre averaged over 36,000 enplanements annually during the period 1977 through 1980, this dropped to a level of approximately 20,000 annually through 1981 and 1982. The Pierre-east market enplanement in the 1977-80 period averaged roughly 18,000, dropping to around 10,000 in 1981-82.
>
> We are aware of no changes in the Pierre market in 1981 and 1982 which would have adversely affected air travel, other than the recession. Passenger demand is coming back now. January 1984 enplanements in the Pierre-east market are up one-third over those of January 1983.

I am not talking about five or six enplanements. I am talking about a lot more than that.

Mr. **Mineta**. Senator Abdnor, one rather unusual problem that we will be facing this year in the essential air service program is that in the fiscal year 1984 transportation appropriations bill, appropriations for the Civil Aeronautics Board are provided only until August 1 of this year. Obviously this was done with the expectation that Congress would come back with a supplemental appropriation to cover the missing months of August and September, but, as you know, what Congress intends to do, doesn't always get done.

We had testimony yesterday from Chairman McKinnon that if there were no supplemental appropriations for CAB for August and September, that there will be no CAB to write the essential air service checks. That most commuter airlines would have to stop serving EAS points, and many of those communities might be so damaged on the cash flow side that they might not be able to subsequently resume service.

Could you give us some kind of an indication what that might mean for your State, and do you feel it will be possible, from your point of view on the Senate Appropriations Committee, to make sure that we get those supplementals enacted before the first of August?

Senator ABDNOR. Let me say this. I honestly believe that if that is brought to the attention to all of the Members of the Congress who are receiving some kind of subsidies through this program, that the funds will be provided. In the case of South Dakota, to my knowledge we aren't receiving any kind of subsidies at the moment.

Mr. MINETA. Very well.

Our fine colleague from Arkansas, Mr. Hammerschmidt.

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Senator Abdnor, if I may say, Jim——

Senator ABDNOR. Please do.

Mr. HAMMERSCHMIDT. We are sorry that Governor Janklow couldn't be here, but we are in another way delighted, because it gave you an opportunity to come back to this room where you spent many working hours.

Senator ABDNOR. That is right.

Mr. HAMMERSCHMIDT. It also gives you a chance to say I told you so on the deregulation matter. I remember that you were the only one on our side of the aisle on the subcommittee that voted against that, and I can appreciate the grievances that you brought to us yourself and through your Governor's testimony.

Jim, I am not going to burden you with a lot of questions, but let me ask one about Pierre. Western Airlines was serving there. I wonder what the load factor was when Western decided to pull out of that market? Do you know what those figures are?

Senator ABDNOR. Could I get that and supply it for the record?

Mr. HAMMERSCHMIDT. Would you supply that.

Senator ABDNOR. There are some disputes about that, and I have real reason to get them because the committee has asked me for them.

[The information received follows:]

SOUTH Dakota
Department of Transportation
700 Broadway Avenue East
Pierre, South Dakota 57501

FEB

February 17, 1984

Honorable John Paul Hammerschmidt
Ranking Minority Member
Aviation Subcommittee
Committee on Public Works
and Transportation
Room 3165
Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative Hammerschmidt:

We write to provide for the record information which you requested of Senator James Abdnor of South Dakota during the Senator's appearance, on behalf of Governor William J. Janklow, before the Aviation Subcommittee on February 1. Specifically, we understand that you requested the load factor of Western Air Lines with respect to its service between Pierre and points East at the time that Western stopped serving the Pierre-East market.

Western's service in the Pierre-East market was provided via B-737 aircraft as part of a linear service involving several markets between Minneapolis and Salt Lake City. We do not have specific information on Western's load factor for this overall service.

We can, however, provide the underlying data for enplanements in the Pierre-East market. Western terminated service in this market in December 1983. In 1983 this market enplaned an average of approximately 32 passengers daily in each direction. The corresponding figures for the full years 1977-1982 are: 1982 - 27; 1981 - 29; 1980 - 45; 1979 - 54; 1978 - 53; and 1977 - 49. The enplanement figures for the pre-recession years, 1977-80, are nearly double the levels of the recession years.

Moreover, we take this opportunity to emphasize that we do not consider the load factor of 737 aircraft to be relevant to the specific legislative relief proposed by Governor Janklow in his statement to the Subcommittee. The Governor has made clear that we are not seeking reinstitution of service in the Pierre-East market by means of B-737 or similar large aircraft; we are seeking pressurized cabin turbo-prop service. We believe that the enplanement levels of the pre-recession years clearly show that Pierre is able to support such service in a non-recession environment.

However, though we are now coming out of the recession, since Western left the Pierre-East market, the market is now served via an inadequate aircraft, the Beech 99, which is small (15 seat), has an unpressurized cabin, and is very negatively perceived by the flying public in the market. Some potential passengers have determined to drive long distances or not travel at all rather than use this service. Thus, the demand for service in the market is being artificially depressed. We believe that if service in the market were provided by a larger, pressurized aircraft, enplanements would increase. The CAB has not been of assistance in solving this "chicken and egg" problem, leaving us with Pierre-East market service via an aircraft which is so negatively perceived as to artificially depress demand. Thus, we support legislation to address this problem.

We would appreciate your support for our efforts and thank you for your consideration of our views.

Sincerely,

James R. Myers
Secretary
Department of Transportation

Mr. HAMMERSCHMIDT. I think you have a rather unique situation. I don't know what the geographical statistics are, but Pierre is a long way from a lot of places.

Senator ABDNOR. It certainly is.

Mr. HAMMERSCHMIDT. If you drive 4 hours to get to Pierre from a great part of your constituency, we know that is a burden. I think the Senate really ought to furnish every Senator with an airplane.

Senator ABDNOR. Let me propose that. That is one of the finest suggestions I have heard. Maybe we can throw some in for the House.

Mr. HAMMERSCHMIDT. Jim, I know some of our colleagues have a lot of questions. We do appreciate your being here very much. We appreciate your fine service over in the other body.

Senator ABDNOR. Thank you.

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Mr. MINETA. Let me, before I call on our fine colleague from California, introduce a very distinguished group that we have in our audience. Congressman Frank Horton and Mrs. Horton are accompanying this group.

Frank, of course, is our very fine colleague from New York, but we have a very distinguished group from a number of embassies that represent their fine countries in our capital city: Australia, Belgium, Canada, Finland, France, Germany, Great Britain, Hungary, Italy, Norway, Singapore, South Africa, Spain, Sweden, Switzerland, Venezuela—all places where Congressman Hammerschmidt has visited. I know. I have been with him on some of those occasions, as well.

Mr. HAMMERSCHMIDT. If the gentleman would yield, I not only want to thank Frank Horton and Mrs. Horton for being here, but I want to greet all of you personally. It is good to see you again.

Mr. MINETA. And it is really great to have Mrs. McHenry, who is your leader in this effort, here as well. Thank you very much for being here and for your fine service.

Mr. Packard.

Mr. PACKARD. Thank you, Mr. Chairman. It is a pleasure for me to meet Senator Abdnor, recognizing that he preceded me on this committee, and knows considerably more about the whole issue of airline regulation and deregulation than I would. I appreciate your testimony, Senator.

Senator ABDNOR. Thank you.

Mr. PACKARD. We have had the chairman of the CAB, Mr. McKinnon, present to us the proposed increased flexibility program, and I will identify it that way. Do you feel that this will adversely impact the present service, or that it will improve the present service, if it is implemented?

Senator ABDNOR. Well, if you are speaking specifically to South Dakota, and particularly to Pierre and some of the smaller communities, it has an adverse impact. If you are talking about service to Minneapolis, I can probably get more connections now between Minneapolis and Chicago and D.C. than ever before.

Many of our airlines have very serious financial problems. I can't really speak to that other than what I read. I think they are in a lot worse shape than they were before. They must be doing something wrong in trying to get into areas that have all the flights that are necessary or needed.

I am not saying that my area is a money maker, but I am saying that our situation, has worsened. I think all parts of the United States are entitled to some air service in or out of their States. I think it is the responsibility of our Government to see to that.

I realize we must have a profit system going, but I just don't think you can apply a certain rule across the board. I guess I am taking a long time in saying that I think in some areas they probably have greater service today. A lot of areas have far worse service.

Mr. PACKARD. As far as South Dakota is concerned, would you advocate continuing the existing EAS system for the present as well as beyond the 1988 sunset period?

Senator ABDNOR. We might ask the CAB to be a little tougher and insist that we have better service out there, or maybe step in and provide a subsidy, if necessary, yes.

Mr. PACKARD. I have traveled to most of the cities of South Dakota, and I recognize how far it is from Sioux Falls to Pierre when you are driving, and it seems like it is a lot further than it really is. I appreciate the problem that you have. Thank you, Mr. Chairman.

Senator ABDNOR. Thank you.

Mr. MINETA. Mr. Weber.

Mr. WEBER. Thank you.

I would like to welcome you, too, this morning, Jim.

Senator ABDNOR. Thank you.

Mr. WEBER. I would just like to say on behalf of Arlan Stangeland and myself we view your testimony with mixed emotions. On the one hand we share most of your points of view regarding rural service. On the other hand, speaking on behalf of the Minnesota business community, we sometimes think we would be better off if there was no transportation to South Dakota of any kind so that our businesses would stay in Minnesota. Having said that, I won't take a lot of the committee's time; there is a distinguished panel of Minnesotans that are going to be testifying and I may not be able to stay throughout.

I have a real concern, as I see what is happening to rural air service, and it is a scenario that in some ways is hauntingly familiar to what has happened in some of our rural communities with rail service. I would just like to describe that to you, Jim, and see if you don't see some of the same parallels.

My home community of Slayton used to be served by a branch line of the Chicago North Western Railroad, and that railroad deteriorated seriously, for a variety of reasons, some of which I think involved the official policy of the CNW.

As the quality of service on that railroad declined, of course, the shippers who are inclined to use it stopped using it and started using trucks because that was better service, and then the railroads come and say nobody is using the line so we are going to abandon it, and eventually the line was torn up and there is no longer rail service to my community.

I see, although for different reasons, a little bit of the same pattern developing in terms of small communities under the essential air service program, which is that the quality of service now is inferior to what it used to be. Because the quality of service is inferior, people who would prefer to travel by air are finding other ways of traveling, and so a rationale develops for further cutbacks in service because people argue, well, they aren't using the service they have already got.

I just would ask you, Jim, do you see that pattern developing, and does it cause you the same concerns it causes me?

Senator ABDNOR. Oh, absolutely. Let me say, Congressman Weber, that my State lost all rail services and we finally went in the business to get some freight out there. We put on a State tax to buy up the lines and finally talked a railroad into coming into South Dakota and taking it over. In the beginning I guess we always felt somewhat left out. When Amtrak went in, I think we were the only State, or one of two, that didn't have Amtrak.

Speaking of trucking deregulation, my biggest concern was instead of 3 lines crossing the State for a while, I hear we have 10, and the big ones make sure they stop in Rapid City and Sioux Falls and the heck with all of the little towns in between.

One of these days the little towns aren't even going to have any trucks stopping. Just the ones going where the big centers are, and I guess where the dollars are. That is fine, except that doesn't make it possible to have much of a progressive community in the rural areas, and that is exactly what is happening.

In answer to your first question, we have had businesses move because the air service has not been adequate. I know of one case where they moved their business into a bigger city.

Mr. WEBER. I don't have any further questions. I do want to compliment you on your statement, and Governor Janklow on his.

Senator ABDNOR. Thank you. You are very kind.

Mr. WEBER. And just say that our interests in the rural parts of the Midwest, Mr. Chairman, are pretty much in line with each other, and I support Senator Abdnor's statement, and encourage the committee to follow a lot of the recommendations both of Governor Janklow's and in the testimony you are going to hear from the panel of Minnesotans in a few minutes. Thank you.

Mr. MINETA. Mr. Stangeland.

Mr. STANGELAND. I have no questions of the distinguished Senator from South Dakota, Mr. Chairman, just to say welcome and a happy New Year. We used to fly together pretty regularly, but apparently you can't get there from here anymore, so I don't see him on the planes.

Senator ABDNOR. That is what happens, Congressman Stangeland. Yes, sir, we used to fight many battles together.

Mr. MINETA. Mr. Wolf.

Mr. WOLF. I thank you. I have no questions. I just want to welcome my constituent here today.

Senator ABDNOR. That is right.

Mr. WOLF. He lives in Skyline Towers and I am his Congressman. I want to welcome you here, Senator.

Senator ABDNOR. I cry on his shoulders once a week. Thank you.

Mr. MINETA. Did you want to ask any questions about the chuckholes or garbage collection services?

Senator **Abdnor**. Yes, I would like to, if I may take that opportunity.

Mr. **Mineta**. Let me correct the record to the extent that Brookings, Huron, Mitchell, and Yankton do receive subsidy totaling about $1.5 million.

The other thing I just wanted to ask very quickly, Jim: Is Western Airlines still serving Pierre to the west?

Senator **Abdnor**. They go from Pierre to Rapid City. I don't know why they dropped the eastern service.

Mr. **Mineta**. But they did discontinue the eastbound services; is that correct?

Senator **Abdnor**. That is right.

Mr. **Mineta**. Again, Jim, thank you very much for your testimony on behalf of Governor Janklow, as well as yourself.

Senator **Abdnor**. Let me say to the committee and to the chairman, I thank you all for being so kind. It has really been, as I said, a treat to be here and to see all you fellows today. It seems I have to have business to see you anymore. Thank you very much.

Mr. **Mineta**. Thank you, Senator. One thing about the House, we always remember each other's names. They say Senators forget names.

At this time let me call on a panel headed by Tulinda Deegan, vice president, government relations, Regional Airline Association, accompanied by Mr. Gary Adamson, Mr. Robert Swenson, and Mr. Mark Morro.

The full text of your prepared statements will appear in the record at this point.

[Statements referred to follow:]

STATEMENT OF TULINDA DEEGAN, VICE PRESIDENT, GOVERNMENT RELATIONS, REGIONAL AIRLINE ASSOCIATION

Thank you Mr. Chairman for the opportunity to present the views of the Regional Airline Association on the status of the Essential Air Service program. I am Tulinda Deegan, Vice President - Government Relations for the Regional Airline Association. With me today are Gary Adamson, President, Air Midwest; Robert Swenson, President, Mesaba Airlines; and Mark Morro, Chief Executive Officer, Wings West Airlines.

Air Midwest receives Section 419 subsidy at:

New Mexico

Roswell, Calsbad, Silver City, and Hobbs

Kansas

Dodge City, Garden City, Goodland, Greatbend, Hays, Hutchinson, and Parsons

Colorado

Laramar

Wings West receives Section 419 subsidy at:

California

Merced and Visalia

Mesaba receives Section 419 subsidy at:

North Dakota

Devils Lake and Jamestown

South Dakota

Brookings, Huron, and Mitchell

Iowa
Mason City and Fort Dodge

I will lead off with an overview of the EAS program, followed by each member of the panel giving a case history of their experience with the program.

Briefly, RAA believes that the Essential Air Service program has met the air transportation needs of the nation's small communities. RAA has three recommendations:

I. EAS MUST HAVE A HIGH VISIBILITY IN DOT
II. INTERLINE SYSTEM MUST BE MAINTAINED
III. REGIONAL/COMMUTER AIRPORTS MUST BE FULLY FUNDED

REGIONAL AIRLINES HAVE MET THE NEEDS OF SMALL COMMUNITIES

Section 419 of the Airline Deregulation Act established a small community air service program to be administered by the Civil Aeronautics Board (CAB). The act defines the level of service that should be guaranteed to ensure that a community will have access to the national air transportation system. The program authorized the CAB to pay subsidy in cases where no carrier will provide the required level of service without subsidy. The Airline Deregulation Act guaranteed that not a single community would lose all air service for 10 years.

Regional airlines in 1982 served 304 of the 327 communities in the United States eligible for essential air service - a 62% increase since the enactment of the Airline Deregulation Act in 1978. (See the attached table)

During the same period, those EAS communities served by the major and national airlines decreased by 55%, from 237 down to 107, demonstrating the dominant role in essential air service being assumed by regional/commuter air carriers.

Those EAS communities served solely by the regional carriers increased dramatically from 83 in 1978 to 220 in 1982, while those served exclusively by the national and majors fell from 133 down to only 23 and those served jointly from 104 to 84.

Service to Essential Air Service Communities

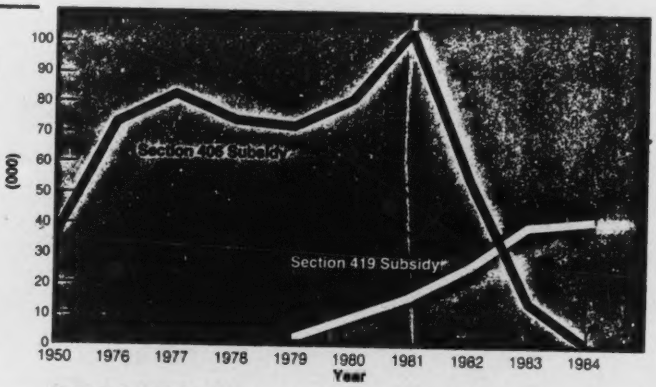
	1978		1982		
Points Eligible	320		327		
Total EAS Points Served by:		%Total		%Total	%Change
Regionals/Commuters	187	58.4	304	93.0	+ 62%
Majors/Nationals	237	74.1	107	31.5	- 55%
Points Served by					
Exclusively Regionals/Commuters	83	25.3	220	67.3	+106%
Exclusively Majors/Nationals	133	41.6	23	7.0	- 83%
Jointly Served	104	32.5	84	25.7	- 20%

Almost 200 EAS communities were not receiving subsidized air service. As of January 1, 1984, only 130 points were subsidized with an average of $267,633 paid per point (See the attached list

of airlines receiving Section 419 subsidy and the communities that they serve). The old Section 406 subsidy program reached a maximum cost of $106 million in 1981. Clearly, the new Section 419 program is more cost effective.

Comparison of Subsidy Payments Section 406 vs. Section 419

Year	Section 406 Subsidy (000)	Section 419 Subsidy (000)
1950	35.0	—
.	.	.
.	.	.
.	.	.
1976	72.5	—
1977	82.2	—
1978	73.9	—
1979	72.1	0.5
1980	80.1	9.0
1981	106.7	15.0
1982	55.1	26.0
1983	13.5	39.8
1984	-0-	50.8



Notes: Section 406 of the Federal Aviation Act. Includes Local Service Operations, Alaska Operations, Air New England, and Air Midwest.

Section 419 of the Federal Aviation Act—"Small Community Air Service Guaranteed Essential Air Transportation."

While Section 406 expired January 1, 1983, Congress appropriated a special fund to be equally distributed to the former recipients of the Section 406 Subsidy.

The figures for 1983 and 1984 are estimates presented in the *Budget of the United States Government—Fiscal Year 1984*.

RAA RECOMMENDATIONS FOR EAS PROGRAM

I. EAS MUST HAVE A HIGH VISIBILITY IN DOT

The Essential Air Service program has been in effect since 1979. Over the past five years the CAB staff, the airlines and the communities have developed a reasonably efficient system for processing EAS cases. A smooth transition of the EAS program from CAB to DOT after sunset is critical to air service to small communities. RAA recommends that the program be brought over to DOT as a total package.

The EAS program needs a high visibility within the Department of Transportation. The RAA recommends that an "Office of Essential Air Service" be established. Both the airlines and the communities need to be assured that EAS issues can be handled on a "one-stop" basis.

II. INTERLINE SYSTEM MUST BE MAINTAINED

The Congress must assure that the regional/commuter airlines have the tools necessary to effectively and economically provide the essential air service needs of the nation's small communities. A smoothly function interline system assures that the passengers boarding in an essential air service community will have easy access to the national air transportation system. This system has allowed passengers to purchase transportation on more than one carrier on a single ticket and has allowed the passenger to check his or her baggage through to the ultimate destination over the lines of more than one carrier. This interline system has provided substantial benefits to the small community passenger.

The Braniff and Continental bankruptcies have disrupted the smooth functioning of this system and have imposed severe financial burdens on small regional and commuter air carriers. Many such carriers have not been paid for transportation which they have provided and which was sold by the bankrupt carrier. In both cases, settlement of the transactions related to tickets sold prior to the filing of the petition was not made in the normal course.

Legislative relief is necessary to protect the interline funds from being held in the case of a bankruptcy.

III. REGIONAL/COMMUTER AIRPORTS MUST HAVE FULL FUNDING

It is imperative that the airports served by the regional and commuter airlines receive full funding from the Airport and Airway Trust Fund. Airports served exclusively by regional and commuter airlines are eligible to receive approximately $275 million during fiscal years 1982 - 1987 for projects that assure safe and reliable air service particularly at essential air service communities.

Nearly 100 of these EAS communities still lack precision approach and navigation aids such as ILS and MLS. Virtually every one of these airports can use funding for runway, taxiway ramp and terminal improvements.

Thank you Mr. Chairman for the opportunity to present the views of the Regional Airline Association on the status of the Essential Air Service Program.

Summary of U.S. Essential Air Service

ESSENTIAL AIR SERVICE TRANSITION NEARS COMPLETION

Regional airlines in 1982 served 304 of 327 communities in the U.S. eligible for essential air transportation—a 62-percent increase since enactment of the Airline Deregulation Act in 1978 that mandated the Essential Air Service (EAS) program.

During the same period, those EAS points served by national and major carriers decreased by 55 percent, from 237 down to 107, demonstrating the dominant role in essential air service being assumed by the regional/commuter airline industry.

Those EAS communities served solely by the regional carriers increased dramatically from 83 in 1978 to 220 by year-end 1982 while those served exclusively by the nationals and majors fell from 133 down to only 23 and those served jointly from 104 to 84. And despite the eligibility of all EAS points for federal subsidy, only 85 points receive subsidy under the EAS program. A number of additional communities receive "hold-in" subsidy on a temporary basis pending the availability of a replacement carrier.

How To Use The Chart

EAS determinations are made by the Civil Aeronautics Board (CAB) to ensure that small and medium-size communities maintain their access to the national air transportation system. These determinations represent a maximum level of service that the CAB will subsidize while also mandating a minimum level of service communities must be provided in terms of the number of daily flights and the number of seats between those communities and their respective hub airports.

The chart depicts *community/hub relationships*, the *distance* between the two and the *minimum number of seats* and *frequencies* that must be provided between the two on a daily basis. In addition, the chart shows the *actual level of service* between the city-pairs as of January 1983 as well as the *annual subsidy rates* for those points receiving subsidy as of September 30, 1982. An asterisk by the number of actual seats being provided in the market indicates that those seats are being provided exclusively by a regional or commuter air carrier. In the case of identical subsidy figures appearing next to a number of communities, the CAB has negotiated a package rate for all of those communities.

There are instances in which the CAB has allowed deviations from the prescribed levels of service based on previous service levels, in situations in which the community agrees to a lesser level of service or alternate service patterns. And, the CAB may allow a carrier to provide fewer seats because aircraft capacities do not exactly match up with the specified capacity levels.

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Alabama 79-10-140	Anniston	Atlanta	82	2	80	5	250*	
	Dothan	Atlanta	171	2	80	6/5	108/569	
	Gadsden	Atlanta	98	2	39	3	54*	
	Muscle Shoals/ Florence/Sheffield/ Tuscumbia	Atlanta and Memphis	198 136	2	80	4/2 1/3	72/181 18/168	
	Tuscaloosa	Atlanta and Memphis	186 185	2	80	2/2 3/2	36/146 54/112	
Arizona 79-10-203	Flagstaff	Phoenix	140	2	80	7	100*	
	Grand Canyon	Las Vegas	169	2	80	14/1	205/90	
	Kingman	Phoenix	181	2	6	2	18	277,708[B]
	Page	Las Vegas or Phoenix	286 289	2	26	— 2	— 33*	
	Prescott	Phoenix	96	2	8	4	36*	277,708[B]
	Winslow	Phoenix	187	2	6	2	16*	468,624[A]
	Yuma	Phoenix and Los Angeles	183 269	2	80	15 8	285* 152*	
Arkansas 80-1-12	El Dorado/Camden	Dallas/Ft. Worth and Memphis	241 206	2	50	3 4	54* 63*	261,602
	Fayetteville	Dallas/Ft. Worth and Memphis or Kansas City	274 245 223	2	80	7 9 1	233* 171* 19*	
	Fort Smith	Dallas/Ft. Worth and Memphis	232 249	2	80	6 5	214* 95*	
	Harrison	St. Louis and Memphis or Kansas City	230 200 318	2 2 to one or 1 to both	80	1 2 —	19* 38* —	
	Hot Springs	Dallas/Ft. Worth and Memphis	255 182	2	80	3 1	57* 19*	
	Jonesboro	Memphis	56	2	50	3	57*	137,676
	Texarkana	Dallas/Ft. Worth and Memphis	183 254	2	80	5 2	250* 38*	
California 79-10-149	Bakersfield[1]	San Francisco and Los Angeles	228 108	2 2	80 80	3 4	117* 200*	136,000
80-4-93	Blythe	Los Angeles	201	2	12	2	16*	428,435
	Chico	San Francisco	145	2	80	6	161*	327,719
	Crescent City	San Francisco	294	2	28	2	28*	185,892
	El Centro	Los Angeles or San Diego	173 94	2	80	8 —	152* —	
82-4-15	Eureka/Arcata	San Francisco	235	2	80	2/3	28/375	
81-4-41	Inyokern	Los Angeles	120	2	56	9	81*	

[A] Represents total subsidy for service at Winslow, AZ and Gallup, NM

[B] Represents total subsidy for service at Kingman, AZ and Prescott, AZ

*Service is provided exclusively by commuter/regional air carriers.

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
California (continued)								
	Lake Tahoe	San Francisco[2]	150	2	80	2	42*	
82-5-131	Merced	San Francisco and Los Angeles	111 265	2	44	3 3	57* 57*	520,585
80-9-69	Modesto	San Francisco and Los Angeles	82 292	2	80	5 1	95* 19*	316,269[c]
	Orange County/ Santa Ana/Anaheim	Los Angeles	32	2	80	29	591*	
	Oxnard/Ventura	Los Angeles	59	2	80	15	258*	
	Palmdale/Lancaster	Los Angeles	55	2	24	9	93*	
	Redding/ Red Bluff	San Francisco	190	2	80	3/2	35/215	
81-4-41	San Luis Obispo/ Paso Robles	Los Angeles and San Francisco	144 191	2	80	14 5	232* 75*	
	Santa Barbara	San Francisco and Los Angelos	250 100	2	80	3/2 21	51/244 549*	•
	Santa Maria	San Francisco and Los Angeles	225 146	2	80	5 22	75* 374*	
	Santa Rosa	San Francisco	56	2	80	3	37*	275,949
80-9-69	Stockton	San Francisco and Los Angeles	67 315	2	80	5 3	75* 228*	316,269[c]
	Visalia	Los Angeles and San Francisco	170 195	2	80	3 3	57* 57*	
	Monterey/Salinas	San Francisco and Los Angeles	87 270	2	80	10 2/2	440* 100/244	
Colorado								
82-10-26	Alamosa	Denver	169	2	74	3	150*	
79-11-135	Aspen	Denver	113	2	80	16	752*	
82-10-26	Cortez	Denver	265	2	52	6	114*	
79-11-135	Durango	Denver and Albuquerque or Farmington or any other city	188 152 39 —	2	80	1/2 4 3/1	19/244 54* 24/122	
81-3-4	Gunnison	Denver	139	2	80	7	133*	
79-11-135	Lamar	Denver	166	2	18	2	38*	
	Montrose/Delta	Denver	184	2	80	6/1	114/122	
	Pueblo	Denver	104	2	80	13	305*	
	Steamboat Springs/ Hayden/ Craig	Denver	113	2	80	8	307*	

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[1] C A B has also issued orders defining a transitional program for service in the Bakersfield-LA market. See orders 79-12-22 and 80-1-59

[2] Includes both SFO and OAK

[c] Represents total subsidy for service at Modesto CA and Stockton CA

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Connecticut 79-10-134	Bridgeport	Boston	137	2	54	7	100*	
	New Haven	Boston and New York	125 65	2	80	4 24	76* 456*	
	New London Groton	New York	102	2	80	21	441*	
	Stamford	Eligible for essential air service, but no airport facilities						
Florida 79-11-38	Eglin A F B [3]	Atlanta and New Orleans	250 185	2	80	2/4 2/2	36/542 16/180	
	Gainesville	Atlanta and either Orlando Tampa or Miami	300 90 115 295	2	80	5 1 3 1	665 8* 24* 125	
	Key West	Miami	126	2	80	15/1	612/122	
	Lakeland	Eligible for essential air service, but served through Tampa						
	Panama City	Atlanta and Orlando, or Tampa	247 288 235	2	80	4 2 3	458 215 34*	
	Melbourne	Atlanta and Orlando, Tampa or Miami	443 55 115 160	2	80	5 2/1 4/2 6	687 16/139 72/225 58*	
Georgia 79-11-75	Albany	Atlanta	146	2	80	4/4	72/395	
	Athens	Atlanta	67	2	80	4	108*	264,920
	Augusta	Atlanta	143	2	80	5	725	
	Brunswick St. Simons Island	Atlanta	247	2	80	4	104*	184,000
	Columbus	Atlanta	83	2	80	5/4	95/520	
	Macon	Atlanta	79	2	80	8/2	211/250	
	Moultrie Thomasville	Atlanta	186	2	36	2	36*	262,000
	Valdosta	Atlanta	208	2	80	3/2	54/180	
80-12-115	Waycross	Atlanta	204	2	20	—	—	
Hawaii 79-10-3	Hana	Honolulu and Kahului	128 28	2	64	3 4	27* 36*	
	Kamuela	Honolulu or Hilo and Kahului	141 45 75	2	62	2 3 4	18* 27* 36*	
	Lanai	Honolulu and Kahului	73 34	2	80	8 9	72* 81*	
Idaho 79-12-4	Lewiston, ID Clarkston, WA	Boise and Spokane	198 89	2	80	4 2	103* 69*	
80-10-52	Pocatello	Boise and Salt Lake City	189 150	2	80	5 7	118* 133*	

[3] Served through Ft. Walton Beach, FL

*Service is provided exclusively by commuter/regional air carriers.

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Idaho (continued)								
82-1-25	Sun Valley/ Hailey/Ketchum	Boise and Salt Lake City	96 223	4		2 4	38* 60*	
79-12-4	Twin Falls	Boise and Salt Lake City	116 175	2	80	1/2 4/2	15/180 60/215	
Illinois								
81-10-6	Bloomington	Chicago and St. Louis	114 142	2	80	7 4	218* 60*	
80-2-124	Champaign/Urbana	Chicago and St. Louis	130 143	2	80	10 3/3	405* 51/375	
	Danville	Chicago	116	2	80	5	121*	
	Decatur	Chicago and St. Louis	152 110	2	80	5 3	219* 45*	
	Galesburg	Chicago	153	2	52	3	49*	
	Marion/Herrin	St. Louis	100	2	80	3	45*	
	Mattoon/Charleston	Chicago or St. Louis	168 123	2	46	4 —	60* —	
	Mount Vernon	St. Louis	87	2	50	3	45*	156,056
	Quincy, IL/ Hannibal, MO	Chicago and St. Louis	224 94	2	80	3 5	57* 87*	
	Rockford	Chicago or an unspecified hub to the east and west	72 —	2	80	4	120*	
81-10-6	Springfield	Chicago and St. Louis	173 84	2	80	13 7/2	669* 226/250	
80-2-124	Sterling/ Rock Falls	Chicago	100	2	44	3	45*	
Indiana								
80-3-193	Bloomington	Chicago and Indianapolis	198 44	2	80	5 5	145* 10*	
	Elkhart	Chicago and Detroit	92 150	2	80	4 4	200* 107*	
81-1-40	Kokomo[5] Logansport/Peru	Chicago or Indianapolis, or Detroit	139 57 190	2	18	2 — —	16* — —	281,966
80-3-193	Lafayette	Chicago and Indianapolis	110 58	2	80	4 —	108* —	
	Muncie/Anderson/ New Castle	Chicago and Indianapolis	167 59	2	80	4 —	72* —	
	Terre Haute	Chicago and Indianapolis	169 58	2 0	80 0	5 0	122* 0	
Iowa[6]								
79-12-2	Burlington	Chicago and St. Louis	191 146	2	80	9 5	215* 87*	
81-9-31	Clinton	Chicago	125	2	22	3	44*	790,814°

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[4] 3 roundtrips per week with service at least four days per week.

580 seats outbound/inbound during summer and winter peak season.

280 seats outbound/inbound during off peak season.

[5] In order 81-1-40, the C.A.B. has approved the current service level offered at Kokomo.

[6] Guaranteed seats for essential air service points in Iowa have been adjusted to reflect current C.A.B. recommended 50% load factor rather than the 65% load factor shown in order 79-9-54.

°Represents total subsidy for service at Clinton, IA and Ottumwa, IA.

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service: Daily Roundtrip Frequency	Guaranteed Essential Air Service: Seats per Day	Actual Available Service 1/83: Daily Roundtrip Frequency	Actual Available Service 1/83: Seats per Day	Annual Subsidy Rates as of Sept. 30, 1982
Iowa (continued)								
79-12-2	Dubuque	Chicago and	156	2	80	7	162*	
		either Omaha,	278			1	8*	
		Minneapolis, or	225			1	8*	
		Des Moines	163			2	26*	
82-8-135	Fort Dodge	Des Moines or	75	2	62	—	—	778.426[E]
		Chicago or	333			—	—	
		Omaha or	123			2	30*	
		Minneapolis	168			2	30*	778.426[E]
	Mason City	Chicago[7]	298	2	not specified	2	36*	631,061
81-9-31	Ottumwa	Chicago or	249	2	32	3	44*	790.814[D]
		Des Moines and	69			1	18*	
		Moline	104			—	—	
79-12-2	Waterloo	Chicago and	242	2	80	6/3	111/375	
		Denver or	678			1	125	
		Minneapolis or	167			8	117*	
		Kansas City or	260			3	57*	
		Omaha	200			1	8*	
Kansas								
81-10-10	Dodge City	Denver and	299	2	40	2	38*	
		Wichita or	139			3	57*	
		Kansas City	303			—	—	
	Garden City	Denver and	257	2	61	3	57*	
		Wichita or	182			2	38*	
		Kansas City	338			1	19*	
80-4-220	Goodland	Denver	172	2	19	2	38*	
81-10-10	Great Bend	Wichita or	92	2	32	2	38*	
		Kansas City				2	38*	
	Hays	Denver and	307	2	62	3	57*	
		Wichita or	130			1	19*	
		Kansas City	246			2	38*	
80-4-220	Hutchinson	Wichita	37	2	14	3	57*	
	Independence/Coffeyville/Parsons	Kansas City	137	2	22	2	38*	
81-10-10	Liberal/Guymon	Denver and	284	2	76	3	57*	
		Oklahoma City or	220			—	—	
		Wichita	199			3	57*	
	Manhattan/Junction City/Fort Riley	Kansas City	108	2	80	19	311*	
80-4-220	Salina	Kansas City and	165	2	80	4	76*	
		Denver or	393			1	19*	
		Wichita	90			2	38*	
81-10-10	Topeka	Kansas City	55	2	80	12/4	184/424	
Kentucky[8]								
79-12-146	London/Corbin	Louisville	118	2	18	2	30*	250,460
	Owensboro	Louisville	84	2	72	4	60*	
	Paducah	Louisville and	183	2	80	4	60*	
		St. Louis	145			4	76*	

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[7] C A B will allow alternate Minneapolis-Mason City-Fort Dodge-Omaha weekend service

[8] By order 82-2-17 C A B requested carrier proposals for new service at Bowling Geen, KY

(631 061) represents subsidy for Mason City-Chicago only

[E] Represents total subsidy for service at Fort Dodge and Mason City

*Service is provided exclusively by commuter/regional air carriers.

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Louisiana 79-11-86	Alexandria	Dallas and New Orleans	296 160	2	80	2 5	290 87*	
	Lafayette	Houston and New Orleans	201 112	2	80	12/4 13	236/430 225*	
	Lake Charles	Houston and New Orleans	127 185	2	80	11 6	282* 105*	
Maine 79-11-24	Augusta/ Waterville	Boston	156	2	80	7	134*	
81-2-39	Bangor	Boston	201	2	80	10/5	231/725	
79-11-24	Bar Harbor	Boston	196	2 2	80 6/1-9/30 42 10/1-5/31	7	106*	
	Lewiston/Auburn	Boston	122	2	18	3	60*	323,308
81-10-155	Portland	Boston	95	2	80	8/6	169/1,015	
79-11-24	Presque Isle/ Houlton	Boston	332	2	80	3	88*	
	Rockland	Boston	151	Same as Bar Harbor		4	60*	
Maryland 79-10-8	Hagerstown, MD/ Martinsburg, WV	Baltimore or Washington, DC	62 68	2	80	7 1	105* 15*	
	Salisbury	Baltimore or Washington, DC	85 102	2 2	80 80	10 4	265* 125*	
Massachusetts 80-1-50	Hyannis	Peak: Boston and New York; Off peak: Boston[9]	61 203 61	2 2	80 80	14 7	185* 120*	
	Marthas Vineyard	Peak: Boston and New York; Off peak: Boston[9]	70 180 70	2 2	80 80	6 2	54 18*	
	Nantucket	Boston and Hyannis	91 30	2	80	12 5	166* 72*	
	New Bedford	New York and Marthas Vineyard or Nantucket	169 26 55	2	32	6 13 15	90* 126* 171*	420,783
	Worcester	New York	153	2	80	3	81*	
Michigan 80-3-18	Alpena	Detroit	192	2.	70	3	54*	
	Battle Creek	Chicago and Detroit	138 98	2	80	5 5	250* 126*	
	Benton Harbor/ St. Joseph	Chicago	71	2	80	3	90*	
	Escanaba	Chicago or Green Bay or Milwaukee	268 99 195	2	80	2/1 2 2	36/139 264 36*	
81-8-129	Flint	Detroit and Chicago	55 223	2	80	11 6	225* 114*	
80-3-18	Hancock/ Houghton	Chicago or Green Bay or Milwaukee	367 186 293	2	80	1 3 2	56 334 195	

[9] Peak season is the period between Memorial Day and Labor Day

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service: Daily Roundtrip Frequency	Guaranteed Essential Air Service: Seats per Day	Actual Available Service 1/83: Daily Roundtrip Frequency	Actual Available Service 1/83: Seats per Day	Annual Subsidy Rates as of Sept. 30, 1982
Michigan (continued)	Iron Mountain/ Kingsford	Chicago or Green Bay or Milwaukee	273 90 198	2	80	1 2 1	125 264 125	
80-8-177	Ironwood, MI/ Ashland, WI	Chicago or Green Bay or Milwaukee or Minneapolis	272 92 198 257	2	71	1 — 1 2	56 — 56 112	
80-12-146	Jackson	Chicago and Detroit	171 66	2	56	2 3	38* 54*	388,903
80-3-18	Kalamazoo	Chicago and Detroit	116 122	2	80	3/5 4/4	54/604 72/327	
	Manistee/ Ludington	Chicago	182	1[10]	16	2	16*	
80-3-18	Marinette/ Menominee	Chicago or Green Bay or Milwaukee	224 47 151	2	72	3 — 2	54* — 38*	
	Marquette	Chicago or Green Bay or Milwaukee	322 144 248	2	80	2/2 3 2/2	38/195 334 38/195	
80-5-131	Muskegon	Chicago and Detroit	118 167	2	80	8 4/1	245* 76/90	
80-3-18	Pellston	Chicago and Detroit	295 239	2	80	1 1	125 125	
82-4-88	Sault Ste. Marie	Detroit	286	2	54	2	181*	
80-3-18	Traverse City	Chicago and Detroit	226 207	2	80	4/2 3/4	72/264 54/362	
Minnesota 80-1-131	Bemidji	Minneapolis	190	2	80	3/3	45/168	
	Brainerd	Minneapolis	135	2	80	1/3	15/168	
	Chisholm/ Hibbing	Minneapolis	165	2	80	1/3	15/236	
	Duluth/ Superior	Minneapolis and Chicago	150 400	2	80	5/4 3/1	95/444 57/125	
	Fairmont	Minneapolis	140	2	38	3	45*	658,312[F]
	International Falls	Minneapolis	260	2 2	80 April-Sept. 58 Oct.-March	1	56	
	Mankato	Minneapolis	70	2	46	4	60*	658,312[F]
82-5-29	Thief River Falls	Minneapolis	310	2	56	1/2	15/112	
80-1-131	Winona	Served through La Crosse, WI						
	Worthington	Minneapolis	170	2	16	2	30*	658,312[F]
Mississippi 79-11-182	Columbus	Atlanta and Memphis	241 136	2	80	2/3 3/4	36/236 54/292	
	Greenville	Memphis	122	2	80	4	293	
	Greenwood	Memphis	107	2	38	3	34*	97,370[G]
	Gulfport/ Biloxi	Atlanta and New Orleans	352 70	2	80	4 4	465 395	

[10] Two roundtrips on weekdays if aircraft smaller than Convairs (40 seats) are utilized.

[F] Represents total subsidy for service at Fairmont, Mankato and Worthington, MN.

[G] Represents total subsidy for service at Greenwood and University Oxford, MS.

*Service is provided exclusively by commuter/regional air carriers.

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Mississippi (continued)								
81-2-131	Jackson/ Vicksburg	Atlanta and Dallas/Ft. Worth	341 409	2	80	7 8	1,234 1,184	
79-11-182	Laurel/ Hattiesburg	Memphis and Atlanta	250 308	2	80	2 2	112 180	
	Meridian	Memphis and Atlanta	200 267	2	80	2 2	112 180	
	Natchez	New Orleans	123	2	24	2	36*	359,052
	Tupelo	Atlanta and Memphis	253 88	2	80	1/1 2/3	18/56 38/168	
	University/ Oxford	Memphis	52	2	12	3	36*	97,370[G]
Missouri[11] 79-10-151	Cape Girardeau/ Sikeston	St. Louis	114	2	80	3	57*	
	Columbia/ Jefferson City	St. Louis and Kansas City	195 152	2	80	8/3 4	112/340 66*	
80-9-103	Ft. Leonard Wood	St. Louis	119	2	72	3	57*	
79-10-151	Kirksville	St. Louis	149	2	16	2	16*	336,784
	Springfield	St. Louis and Kansas City	195 152	2	80	1/6	19/715	
Eastern Montana and Western North Dakota 80-1-44	Glasgow	Billings	189	2	19	2	28*	1,631,171[12]
	Glendive	Billings	201	2	6	2	18*	1,631,171[12]
	Havre	Great Falls	107	2	9	—	—	1,631,171[12]
	Lewiston	Billings	92	2	10	2	18*	1,631,171[12]
	Miles City	Billings	135	2	10	2	18*	1,631,171[12]
	Sidney	Billings	245	2	9	2	38*	1,631,171[12]
	Williston, ND	Bismarck and Billings	166 284	2	42	2 2	38* 38*	1,631,171[12]
	Wolf Point	Billings	212	2	12	2	28*	1,631,171[12]
Montana 82-11-79	West Yellowstone	Denver or Salt Lake City	480 280	2 June-Labor Day 1 Labor Day-June	80 40	— —	— —	
Nebraska 81-8-70	Alliance	Denver	210	2	21	2	30*	413,417[H]
	Chadron	Denver	240	2	19	2	30*	413,417[H]
80-3-110	Columbus	Omaha	95	2	23	2	30*	1,055,866[I]
79-10-143	Grand Island	Denver and Omaha	357 128	2	80	3 3	366 366	

[11] By order 82-6-53 C.A.B. requested carrier proposals for service at Sedalia, MO.

[12] Represents total subsidy for service at Glasgow, Glendive, Havre, Lewiston, Miles City, Sidney, Wolf Point, MT, and Williston, ND.

[G] Represents total subsidy for service at Greenwood and University/Oxford, MS.

[H] Represents total subsidy for service at Alliance, Chadron and Sidney, NE.

[I] Represents total subsidy for service at Columbus, Hastings, Kearney, and McCook, NE.

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Nebraska (continued)								
80-3-110	Hastings	Omaha	170	2	34	3	45*	1,055,868[I]
80-11-66	Kearney	Denver and Omaha	318 190	2	38	2 3	30* 45*	1,055,868[I]
79-12-15	McCook	Denver	254	2	22	2	30*	1,055,868[I]
	Norfolk	Omaha	93	2	40	2	38*	566,101[M]
	North Platte	Omaha and Denver	251 240	2	80	2 2	244 244	
	Scottsbluff	Denver and Lincoln or Omaha	160 363 401	2	80	2 1 1	244 122 122	
81-8-70	Sidney	Denver	160	2	14	2	30*	
Nevada								413,417[H]
79-11-27	Elko	Reno and Salt Lake City	230 200	2[13]	65	3 2	57* 38*	1,102,274[L]
	Ely	Reno and Salt Lake City	264 184	2[13]	26	3 2	38* 38*	1,102,274[L]
New Hampshire								
82-6-61	Berlin, NH	Boston	153	2	6	2	16*	
81-9-76	Keene	Boston and New York	86 275	2	72	3 3	57* 57*	
81-11-7	Laconia	Boston or New York	86 230	2	32	6	48*	
81-9-76	Lebanon/ White River Jct.	Boston* and New York	130 240	2	80	5 5	260* 117*	
79-10-29	Manchester/ Concord	New York and Boston	220 60	2	80	7 11	284* 132*	
New Jersey								
79-10-135	Atlantic City	Philadelphia	60	2	80	13	247*	
	Cape May	Philadelphia	73	2	80 6/1-9/15 38 9/16-5/31	4	76*	
	Teterboro	No essential air service determination made due to proximity to Newark.						
	Trenton	Philadelphia	30	2	80	14	290*	
New Mexico								
81-8-35	Alamogordo/ Holloman A.F.B.	Albuquerque or El Paso	160 76	2	54	3 6	27* 51*	
	Carlsbad	Albuquerque or Lubock or Amarillo or Midland/Odessa	230 170 240 130	2	54	3 — — 2	57* — — 38*	587,213[K]
81-8-35	Clovis	Albuquerque or Lubbock or Amarillo or Midland/Odessa	194 89 90 160	2	54	3 — 1 —	57* — 19* —	

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[13] One daily roundtrip with large jet, or two daily roundtrips with smaller aircraft

[H] Represents total subsidy for service at Greenwood and University/Oxford, MS

[I] Represents total subsidy for service at Columbus, Hastings, Kearney, McCook, NE

[K] Represents total subsidy for service at Carlsbad, Hobbs, and Roswell, NM

[L] Represents total subsidy for service at Elko and Ely, NV

[M] Represents total subsidy for service at Norfolk, NE and Yankton, SD

*Service is provided exclusively by commuter/regional air carriers.

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
New Mexico (continued)								
80-2-162	Farmington	Albuquerque and Denver	148 277	2	80	14 2	145* 244	
81-8-35	Gallup	Albuquerque	127	2	76	3	24*	468,624[A]
	Hobbs	Albuquerque or Lubbock or Amarillo or Midland/Odessa	253 95 195 65	2	50	3 — — 2	57* — — 38*	587,213[K]
80-2-162	Roswell	Albuquerque and either Lubbock or Midland/Odessa	163 155 170	2	80	5 — 2	95* — 38*	587,213[K]
80-2-162	Santa Fe	Albuquerque or Denver	49 294	2	28	— 3	— 57*	223,163
80-2-162	Silver City/ Hurley/ Deming	Albuquerque	185	2	32	2	38*	195,842
New York								
80-3-19	Binghamton/ Endicott/ Johnson City	New York and Pittsburgh	145 247	2	80	7 3	212* 375	
82-6-163	Catskill/ Sullivan County	No Service Required						
80-3-19	Elmira/ Corning	New York and Pittsburgh	182 208	2	80	3/2 3	130/201 375	
82-12-25	Glens Falls	No service required						
81-4-166	Islip	Any hub	—	2	80	—	—	
80-3-19	Ithaca/ Cortland	New York and Pittsburgh	178 236	2	80	2/2 3	38/201 375	
	Jamestown	Pittsburgh and Buffalo	127 61		80	7 5	165* 105*	
	Massena	Syracuse	141	2	28	3	45*	1,892,496[H]
	Ogdensburg	Syracuse	113	2	26	2	30*	1,892,496[H]
81-12-97	Plattsburgh	Albany	135	2	58	3	45*	1,892,496[H]
81-9-62	Poughkeepsie	New York	59	2	80	6	180*	
80-3-19	Rockville Center	No service required						
80-3-19	Saranac Lake/ Lake Placid	Albany	115	2	20	2	30*	1,892,496[H]
80-3-19	Utica/Rome	New York	183	2	80	8	284*	
	Watertown	Syracuse	61	2	32	3	45*	1,892,496[H]
	White Plains	Any hub	—	2	80			
North Carolina 80-3-99	Asheville	Atlanta and Washington, DC	164 380	2	80	3/3 1	86/356 122	
	Fayetteville	Atlanta and Washington, DC	330 285	2	80	4 2	488 244	

[A] Represents total subsidy for service at Winslow, AZ and Gallup, NM

[K] Represents total subsidy for service at Carlsbad, Hobb, and Roswell, NM

[H] Represents total subsidy for service at Massena, Ogdensburg, Plattsburg, Saranac Lake/Lake Placid, and Watertown, NY

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
North Carolina (continued)	Hickory	Atlanta and any hub in North Carolina or further north	225	2	80	2	30*	
	Jacksonville/ Camp Lejune	Raleigh/Durham, Norfolk, Richmond, or Washington, DC and Atlanta, or Charlotte	115 160 195 281 407 195	2	80	1 1 — 1 1 2	122 122 — 122 122 244	
	Kinston/ Goldsboro/ Greenville	Raleigh/Durham, Norfolk, Richmond, or Washington, DC and Atlanta, or Charlotte	75 135 160 247 406 185	2	80	— — 1 1 1 1	— — 122 122 122 122	
	New Bern/ Morehead City/ Beaufort	Raleigh/Durham and Norfolk, Richmond, or Washington, DC	115 130 172 275	2	80	3 — 2 2	62* — 36* 36*	
81-6-26	Rocky Mount/[14] Wilson	Raleigh/Durham	55	2	58	1	18*	270,766
80-3-99	Wilmington	Atlanta and Raleigh/Durham, Norfolk, Richmond, or Washington, DC	377 123 205 235 321	2	80	3 3/1 1 2 1/1	366 31/122 122 244 15/122	
	Winston-Salem	Washington, DC, Atlanta, or Charlotte	253 70 294	2	80	2 2 —	244 244 —	
North Dakota 80-8-28	Devils Lake	Bismarck and Grand Forks	126 81	2 1	36 18	2 —	38* —	337,035
79-11-134	Jamestown	Bismarck and Minneapolis	105 301	2	40	2 2	38* 38*	400,747
Ohio 81-8-173	Akron-Canton	Chicago and Pittsburgh	344 70	2	80	1/2 13	44/267 330*	
79-10-163	Mansfield	Cleveland	59	2	67	4	82*	
	Youngstown	Chicago and Pittsburgh	370 57	2	80	2 7	244 210*	
81-12-70	Zanesville/Cambridge	No service required						
Oklahoma 79-12-14	Enid	Oklahoma City or Wichita	69 90	2	36	2 —	38* —	591,456[P]
82-9-91	Lawton/ Ft. Sil:	Dallas	140	2	80	9	321*	
79-12-14	McAlester	Oklahoma City or Tulsa	109 91	2	12	— —	— —	433,715[O]
79-12-14	Ponca City	Oklahoma City or Wichita	96 66	2	12	2	38*	591,456[P]

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[14] The C.A.B. is requesting interested carriers to submit proposals to provide essential air service at the level (32 daily seats in each direction) approved by order 81-3-42

[P] Represents total subsidy for service at Enid, Ponca City, and Stillwater, OK

[O] Represents total subsidy for service at McAlester, OK and Paris, TX

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State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Actual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Oklahoma (continued)								
79-12-14	Stillwater	Oklahoma City or Tulsa	60 67	2	12	2	38*	591,456*
Oregon								
80-9-15	Albany/ Corvallis	No service guaranteed.						
82-9-17	Astoria/ Seaside	No service required						
81-1-141	Bend/ Redmond	Portland and either Eugene, Medford, or San Francisco	116 90 156 464	2	80	4/1 1 — 1	107/90 50* — 90	
	Klamath Falls	Portland and San Francisco	240 307	2	80	3/1 1/2	104/90 8/215	
79-12-23	Medford	Portland and San Francisco	222 320	2	80	6 3	207* 366	
	North Bend/ Coos Bay	Portland and either Eugene, Medford, or San Francisco	170 75 100 412	2	80	4 3 — —	92* 57* — —	
	Pendleton	Portland and either Boise or Salt Lake City[15]	182 196 485	2	80	4 — —	76* — —	
	Salem	Portland and either Medford or San Francisco	51 160 495	2	80	3 1 —	57* 19* —	
Pennsylvania								
79-10-159	Altoona	Pittsburgh	83	2	80	6	114*	
81-9-93	Bellefonte/ State College	Pittsburgh	120	2	80[16]	7	188*	
79-10-159	Bradford	Pittsburgh	127	2	80	5	75*	
81-9-93	Clearfield/ Phillipsburg	Pittsburgh	95	2	80[16]			
79-10-159	DuBois	Pittsburgh	79	2	80	7	133*	
	Erie	Pittsburgh and Buffalo	113 78	2	80	5/5 1	81/527 125	
81-8-34	Hazleton	No service required						
79-10-159	Johnstown	Pittsburgh	55	2	80	5	95*	
	Lancaster	Philadelphia	58	2	80	7	210*	
	Oil City/ Franklin	Pittsburgh	70	2	72	6	114*	
	Reading	Philadelphia	47	2	80	9	270*	
	Williamsport	Pittsburgh and Philadelphia	163 135	2	80	4 4	100* 68*	

[15] One daily roundtrip with jet aircraft, or two each day with non-jet aircraft to SLC.

[16] Order 81-9-93 redefines essential service at State College and Phillipsburg as service that can be provided at a single airport serving the needs of both areas.

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Puerto Rico 82-3-25	Aguadilla	Not eligible for essential service						
79-10-165	Mayaguez	San Juan	76	2	80	20	329*	
	Ponce	San Juan	47	2	80	5	64*	230,554
South Carolina 80-1-67	Florence	Atlanta and Charlotte or Washington, DC	273 100 354	2	80	4 4 —	76* 76* —	
	Myrtle Beach	Atlanta and Charlotte or Washington, DC	323 158 336	2	80	2 4/2 1	244 76/244 122	
South Dakota 80-2-9	Aberdeen	Minneapolis and Sioux Falls	261 154	2	80	3 2	237 181	
82-1-104	Brookings	Sioux Falls or Minneapolis	50 182	2	19	— 3	— 45*	998,635[B]
	Huron	Sioux Falls or Minneapolis	93 249	2	44	— 3	— 45*	998,635[B]
82-1-104	Mitchell	Sioux Falls or Minneapolis	66 251	2	28	— 3	— 45*	998,635[B]
	Pierre	Denver and Minneapolis or Sioux Falls	397 350 185	2	80	2	244	
		Minneapolis, and Denver or Rapid City	350 397 140	2	80	2	244	
80-2-9	Watertown	Minneapolis and Rapid City	197 298	2	80	3 2	168 112	
	Yankton	Omaha or Sioux Falls	135 56	2	35	2 —	38* —	566,101[N]
Tennessee 80-1-53	Clarksville, TN/ Ft. Campbell/ Hopkinsville, KY	Nashville	55	2	27	2	30*	116,174
	Jackson	Memphis	71	2	80	4	76*	
Texas 80-3-62	Abilene	Dallas	182	2	80	13	371*	
	Beaumont/ Pt. Arthur	Houston	78	2	80	10	289*	
	Brownsville	Houston or Dallas	298 485	2	80	3 —	375 —	
	Brownwood	Dallas	136	2	24	2	16*	
	Harlingen/ San Benito	Houston	295	2	80	8	976	
	Laredo	San Antonio	148	2	80	4	76*	
	Longview/ Kilgore/ Gladewater	Dallas	115	2	80	10	190*	

[N] Represents total subsidy for service at Norfolk, NE and Yankton, SD

[O] Represents total subsidy for service at McAlester, OK, and Paris, TX

[B] Represents total subsidy for service at Brookings, Huron, and Mitchell, SD

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State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Texas (continued)	McAllen/ Mission/ Edinburg	Houston	300	2	80	3/5	270/625	
	Paris	Dallas	105	2	16	2	38*	433,715°
	San Angelo	Dallas	250	2	80	8	276*	
	Temple	Dallas	122	2	66	4	76*	
	Tyler	Dallas	78	2	80	10	190*	
	Victoria	Houston	123	2	80	6	114*	
	Waco	Dallas	89	2	80	13	223*	
	Wichita Falls	Dallas	113	2	80	11	395*	
Utah 79-11-26	Cedar City	Salt Lake City and Las Vegas	221 160	2	36	4 4	65* 48*	
	Vernal	Salt Lake City and Denver or Grand Junction[17]	131 250 110	2	47	4 3	76* 57*	
Vermont 79-11-183	Montpelier/ Barre	Boston	149	2	44	4	76*	238,653
82-6-61	Newport, VT	Boston	184	2	6	2	16*	
79-11-183	Rutland	Boston or New York	127 200	2	30	3 3	57* 57*	
Virginia 80-4-177	Charlottesville	Washington, DC and Roanoke	86 95	2	80	5/1 7/1	199/122 195/122	
81-9-56	Danville	Raleigh or Washington, DC	39 201	2	32	1	18*	236,452
	Hot Springs	Washington, DC	158	2	34	1	18*	233,257
80-4-177	Lynchburg	Washington, DC and Roanoke	152 45	2	80	2/1 5/1	100/122 126/122	
81-9-56	Newport News/ Hampton/ Williamsburg/ Yorktown	Washington, DC	127	2	80	7	330*	
80-4-177	Roanoke	Washington, DC and Atlanta	187 357	2 0	80 0	1/3 0	50/366 0	
	Staunton	Washington, DC	103	2	80	5	145*[19]	
Washington 81-5-122	Ephrata/ Moses Lake	Seattle	142	2	24	1	19*	237,769
80-1-65	Pasco/ Kenwick/ Richland	Seattle and Portland	175 174	2	80	10/5 8	407/505 163*	
	Pullman/ Moscow	Seattle and Spokane	250 84	2	80	1/50* 2	78* 69*	
	Walla Walla	Seattle and Portland	215 211	2	80	4 1	138* 15*	

[17] In the Vernal/Grand Junction/Denver market at least one roundtrip per day must be provided to Denver, the second roundtrip may be provided to either Denver or Grand Junction.

[18] Service is provided to Hot Springs from March to November and the Greenbrier from November to March.

[19] This figure represents the seats available per day to both DCA and BWI Airports.

Summary of U.S. Essential Air Service

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Washington (continued)								
81-5-122	Wenatchee[20]	Seattle/ Portland (May-Sept.)	98	2	72	2	30*	113,124
80-1-65	Yakima	Seattle and Portland	105 200	2 2	80 80	13 8	425* 228*	
West Virginia								
81-9-17	Beckley	Roanoke and Greensboro and Cincinnati or Pittsburgh	70 134 211 224	2	80	— 3 — 3	— 54* — 54*	342,697
81-6-145	Clarksburg/ Fairmont	Pittsburgh and Washington, DC	83 163	2	80	9 3	162* 54*	
81-10-7	Elkins?	Pittsburgh and Washington, DC	113 141	1	22	3 1	54* 18*	
81-6-145	Greenbrier/ Lewisburg	Washington, DC and Atlanta or Roanoke	185 369 44	2	80	1 1 —	122 122 —	
	Morgantown	Pittsburgh and Washington, DC	61 160	2	80	7 3	126* 54*	
82-6-83	Parkersburg	Pittsburgh	102	2	80	12	316*	
81-6-145	Princeton/ Bluefield	Pittsburgh and Roanoke or Greensboro	227 68 109	2	80	3 — 2	54* — 36*	
Wisconsin								
79-10-150	Appleton	Chicago and Minneapolis	160 232	2	80	6 3	269* 57*	316,740
82-9-44	Beloit/ Janesville	Chicago	83	2	12	6	78*	
79-10-150	Eau Claire	Chicago and Minneapolis	269 85	2	80	2 5/2	264 95/181	
	Green Bay/ Clintonville	Chicago and Minneapolis	181 248	2	80	5 4	612 459	
	LaCrosse, WI/ Winona, MN	Chicago and Minneapolis	225 117	2	80	2/4 2/4	38/458 38/396	
	Manitowoc	Chicago	156	2	80	3	54*	
	Oshkosh	Chicago	151	2	80	2/4	100/378	
	Rhinelander/ Land O'Lakes	Chicago	273	2	80	2	181	
	Wausau/ Stevens Point	Chicago and Minneapolis	219 174	2	80	6/5 4/3	114/584 76/403	
Wyoming								
80-7-14	Cheyenne	Denver	96	2	80	8/2	152/244	
79-11-186	Jackson	Denver and Salt Lake City	395 200	2[21]	80	3 2	386 88*	
	Laramie	Denver	120	2	80	2/3	18/386	

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[20] Between May and September, with community approval Cascade Airways offers an additional 45 seats to Portland. From October until April, 75 seats are available each day between Wenatchee and Seattle.

[21] Two daily roundtrips are to be offered to each hub during peak season (June-September) and one weekday roundtrip is to be offered to each hub during off-peak (October-May.)

*Service is provided exclusively by commuter/regional air carriers.

State and C.A.B. Order	City	Hub	Distance to Hub	Guaranteed Essential Air Service		Actual Available Service 1/83		Annual Subsidy Rates as of Sept. 30, 1982
				Daily Roundtrip Frequency	Seats per Day	Daily Roundtrip Frequency	Seats per Day	
Wyoming (continued)	Lovell/Powell/ Cody	Denver	395	2	76	2	64	
	Riverton/ Lander	Denver	293	2	80	1/2	32/244	
	Rock Springs	Denver and Salt Lake City	282 155	2	80	2 2	244 38*	
82-10-27	Sheridan	Denver	362	2	80	3	96*	
82-11-14	Worland	Denver	337	2	18	2	64*	

Note: The number of seats constituting available service have been calculated on a standardized basis for each aircraft type. Individual carrier configurations may vary.

1 CAB, Individual essential air service determinations.
2 Official Airline guide, North American Edition, January, 1983.

Carriers (and Communities) Which Are Receiving Section 419 Compensation Pursuant to Board Decisions in Carrier Selection Cases With Rates in Effect on January 1, 1984

($)

Effective Date of Rate	Carriers 1/	Communities	Annual Amount 2/	No. of Points
4/1/81	Air Kentucky (I)	London/Corbin, KY	250,460	1
10/25/81	Mesaba (I)	Fairmont, Worthington, Mankato, MN		
3/4/82	Air Midwest (I)	Roswell, Carlsbad, Hobbs, NM	658,312	3
4/1/82	Simmons	Manitowoc, WI	587,213*	3
4/26/82	American Central (I)	Clinton, Ottumwa, IA	143,256	1
4/26/82	Precision (I)	Montpelier/Barre, VT	790,814	2
5/15/82	Rio (I)	Jonesboro, AR	238,653	1
6/8/82	Cascade (I)	Moses Lake, WA	137,676	1
6/8/82	Cascade (I)	Wenatchee, WA	263,368	1
7/1/82	Mid-South	Danville, VA	191,337	1
7/15/82	Air Kentucky (I)	Mt. Vernon, IL	207,202	1
7/15/82	Sun West	Gallup, NM, Winslow, AZ	156,056	1
9/1/82	Peninsula (I)	Atka, AK	417,719*	2
9/1/82	Prinair (I)	Ponce, PR	219,780 3/	1
9/8/82	Simmons (I)	Jackson, MI	230,554	1
9/18/82	Mid-South (I)	Rocky Mount, NC	388,903*	1
10/22/82	Air Kentucky (I)	Clarksville, TN	270,766*	1
10/25/82	South Central	Seward, AK	125,239	1
10/26/82	Sunbelt (I)	El Dorado/Camden, AR	27,037	1
11/15/82	Metro (I)	Enid, Ponca City, Stillwater, OK	410,170*	1
11/18/82	ASA (I)	Gadsden, AL	662,431	3
12/15/82	Mesaba (I)	Mason City, Fort Dodge,IA (MSP/OMA)	295,929	1
12/15/82	American Central (I)	Mason City, IA (ORD)	778,426*	2
1/12/83	Sky West	Cedar City, UT	631,061*	-
1/12/83	Sky West	Page, AZ	334,537*	1
2/1/83	Royale	Greenwood, University/Oxford, MS	333,192	1
2/1/83	Pioneer	Santa Fe, NM	430,901	2
2/15/83	Bar Harbor	Lewiston/Auburn, ME	386,696	1
3/15/83	Horizon	North Bend, OR	276,203	1
3/15/83	Horizon	Salem, OR	386,986*	1
3/24/83	Pioneer	Sidney, Alliance, Chadron, NE	215,899	1
3/24/83	WestAir Commuter	Chico, CA	796,465	3
3/24/83	WestAir Commuter	Crescent City, CA	87,394	1
3/24/83	WestAir Commuter	Santa Rosa, CA	159,330	1
			167,587	1

Note: Footnotes are on Page 3 of this Appendix.

Effective Date of Rate	Carriers 1/	Communities	Annual Amount 2/	No. of Points
4/1/83	Clinton Aero	Plattsburgh, Massena, Watertown, Saranac Lake, Ogdensburg, NY	1,648,221	5
4/1/83	Colgan	Hot Springs, VA	197,947	1
4/1/83	Direct Air	Kokomo, IN	264,891	1
4/1/83	Sky West	Ely, Elko, NV	1,144,145*	2
4/12/83	Aeromech	Elkins, WV	169,673*	1
4/20/83	Golden Pacific	Kingman, Prescott, AZ	397,811*	2
4/24/83	Pioneer	McCook, Kearney, Hastings, NE	1,108,163*	3
4/24/83	Simmons	Sault Ste. Marie, MI	524,560	1
5/1/83	Metro	McAlester, OK, Paris, TX	476,852	2
5/3/83	Rio	Temple, TX	226,960	1
5/14/83	Pacific Express	Stockton, Modesto, CA (LAX)	432,939*	2
5/15/83	American Central	Manistee/Ludington, MI	233,433	1
5/19/83	Eagle Commuter	Brownwood, TX	353,771	1
6/1/83	AAA	Columbus, Norfolk, NE, Yankton, SD	1,076,563*	3
6/1/83	Atlantis	Waycross, GA	249,775	1
6/1/83	Alpine	Moab, UT	152,782	1
6/1/83	Horizon	Pendleton, OR	898,171*	1
7/1/83	Big Sky	Glasgow, Glendive, Havre, Lewiston, Miles City, Sidney, Wolf Point, MT, Williston, ND	2,012,278*	8
7/18/83	Sea Airmotive	Kodiak Bush Community Cluster, AK	488,735	18
7/27/83	Crown	Franklin/Oil City, PA	237,338	1
8/1/83	Air Midwest	Dodge City, Garden City, Goodland, Great Bend, Hays, Hutchinson, Parsons, KS, Lamar, CO	2,170,000*	8
8/1/83	Air Midwest	Silver City, NM	264,368	1
8/1/83	ASA	Athens, GA	398,683	1
8/1/83	Mesaba	Brookings, Huron, Mitchell, SD	775,000	3
8/22/83	Bemidji Aviation	Thief River Falls, MN	241,166	1
8/25/83	Desert Sun	Blythe, CA	375,509	1
9/1/83	Peninsula	St. George, AK	90,655	1
9/7/83	Airways of N.M.	Alamogordo, NM	335,094*	1
9/7/83	Atlantis	Moultrie, GA	478,899	1
9/25/83	Centennial	Worland, WY	299,129	1

Note: Footnotes are on the following page.

Effective Date of Rate	Carriers 1/	Communities	Annual Amount 2/	No. of Points
10/1/83	Alaska	Cordova, Gustavus, Petersburg, Wrangell, Yakutat, AK	3,572,778*	5
10/1/83	Wings West	Visalia, CA	436,454*	1
10/26/83	Royale	Natchez, MS	195,108	1
12/1/83	Green Hills	Kirksville, MO	424,125	1
12/1/83	Mesaba	Devils Lake, Jamestown, ND	782,739	2
		Total	34,792,267	130
		Average per Point	267,633	
		Total/Lower 48 States	30,393,282	104
		Average per Point	292,243	
		Total/Alaskan Points	4,398,985	26
		Average per Point	169,192	

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* Multi-hub markets.

** The start-up date has not been finalized yet.

1/ The final rates of compensation for some carriers have expired and are now interim rates pending the outcome of new rate agreements and/or carrier selection cases. In these instances, an "(I)" has been placed after the carrier's name.

2/ This is the maximum amount that can be paid to a carrier pursuant to the rate agreement in each case.

3/ Plus $598 each for every extra section up to a maximum of 12.

STATEMENT OF ROBERT D. SWENSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MESABA AIRLINES

Thank you Mr. Chairman for giving me the opportunity to present the following viewpoints regarding the Essential Air Service program as presented by our Company, Mesaba Airlines. My name is Robert Swenson and I am President of Mesaba Airlines.

For your information, our Company was founded in 1944 as an aviation services company and has now been providing scheduled airline services for twelve years. During those twelve years, we have provided reliable, safe and efficient airline service to hundreds of thousands of airline passengers in the North Central Region.

As a result of Deregulation and the movement of several major carriers out of small and medium sized cities in our region, during the last few years, we have expanded our services. In the majority of these replacement markets, we have carried greater passenger numbers than the prior major airline or other regional airline had at a much reduced cost.

We presently serve 17 cities in the five states of Iowa, Minnesota, Nebraska, North Dakota and South Dakota. Our current route structure serves just over seven thousand passengers per month and at this traffic level, we are approximately fiftieth in ranking among the approximately 240 regional commuter airlines in the United States. Mesaba is a publicly held corporation that has been profitable during the last one and a half years of operations.

Mesaba receives 419 subsidy for service at ten of the 17 cities served. The level of subsidies received by the airline is generally 30 to 50 percent of the level received by the prior major airline at each point and the total public service revenues forecast to provide service to these ten cities during the next twelve months is approximately 2.5 million dollars, or $250,000 per city. On the other hand, Mesaba is providing total services or supplemental services to four other Essential Air Service points without any public service revenues. For instance, we recently replaced Western Airlines in two South Dakota markets on a subsidy free basis. In these markets, Western Airlines had been receiving approximately $400,000 to serve these points. It is my position that further movement of regional carriers into Essential Air Service markets will result in little or no additional public service revenues, since most of the remaining markets still served by major carriers will be self-sustaining for well run regional airlines.

Although we have not been able to stimulate traffic in all of our Essential Air Service markets above the recent levels of the major airline, we have done so in many markets. The following traffic data shows some of these comparisons.

MESABA AVIATION, INC.
PASSENGER STATISTICS

FORT DODGE - MASON CITY, IOWA

MONTH	ENPLANEMENTS 1/1/83 - 12/15/83 MESABA FORT DODGE	MESABA MASON CITY	AMER. CENTRAL MASON CITY	TOTAL MASON CITY	ENPLANEMENTS 1/1/82 - 12/15/82 OZARK FORT DODGE	OZARK MASON CITY
JANUARY	407	272	229	501	422	314
FEBRUARY	485	259	213	472	274	231
MARCH	376	225	305	530	332	282
APRIL	322	213	302	515	327	283
MAY	317	237	310	547	295	232
JUNE	353	301	377	678	350	307
JULY	368	284	342	626	350	315
AUGUST	359	296	379	675	243	288
SEPTEMBER	293	270	352	622	308	250
OCTOBER	378	283	325	608	120	260
NOVEMBER	378	223	297	520	220	191
DECEMBER	271	198	176	374	100	124
TOTAL	4317	3061	3607	6668	3341	3077

FORT DODGE-MASON CITY SUMMARY	INCREASE AMOUNT	PERCENT
FORT DODGE	976	29%
MASON CITY	3591	117%
TOTAL	4567	71%

BROOKINGS-HURON-MITCHELL, SOUTH DAKOTA

MONTH	ENPLANEMENTS-MESABA 1/1/83-11/30/83 BROOKINGS	HURON	MITCHELL	ENPLANEMENTS-REPUBLIC 1/1/81-11/30/81 BROOKINGS	HURON	MITCHELL
JANUARY	153	206	94	120	288	199
FEBRUARY	114	168	78	94	233	191
MARCH	167	209	107	133	211	195
APRIL	169	183	52	124	211	158
MAY	190	208	97	131	229	200
JUNE	185	228	101	129	262	168
JULY	186	240	106	121	293	214
AUGUST	161	238	128	94	219	140
SEPTEMBER	169	228	126	104	213	135
OCTOBER	225	216	150	96	250	249
NOVEMBER	177	199	123	29	120	65
DECEMBER						
TOTAL	1896	2323	1162	1175	2529	1914

BROOKINGS-HURON-MITCHELL CITY SUMMARY	INCREASE AMOUNT	PERCENT
BROOKINGS	721	61%
HURON	(206)	(8)%
MITCHELL	(752)	(39)%
TOTAL	(237)	(4)%

Clearly, we believe that our Company has met the objectives of Congress by providing reliable, safe and efficient replacement service in Essential air Service cities. An example of our reliable service is evidenced by a public survey done during January of 1982 by the Metropolitan Airports Commission which revealed that 97.5% of our flights operated on time, (using the definition of arrising within 15 minutes of scheduled time).

Although there may be varying degrees of success because of individual carriers and cities, we believe strongly that the Essential Air Service program is working as desired. We have included two proclamations by cities that we serve as examples of cities that feel the same.

See pages 4 and 5 for proclamations.

In addition to relying on individual carriers to adequately serve these markets, much of the success of the program is due to'Congress for overseeing the program and the Civil Aeronautics Board for implementing the program.

We have found the Civil Aeronautics Board to be fair to deal with and believe that this agency has done a very good job in administrating the Essential Air Service program. Although the handling of every route case is done under very competitive conditions and with the understanding that our Company has not received the final award in some cases, we do believe that cases have been handled fairly.

We do believe that the Civil Aeronautics Board should be given somewhat greater latitude in administering the program. This may take the form of allowing some new cities with potential to qualify for the Essential Air Service program and subject some cities to the loss of Essential Air Service status if they are not properly utilizing the service. The cities involved in the program clearly must play a critical role in ensuring their success of air service.

For the program to succeed, the quality of service and carrier selected must be maintained. To accomplish this, the Civil Aeronautics Board must be given adequate latitude in the carrier selection process. This means that the primary focus should not be based upon the level of subsidies necessary to secure a carrier, but rather, the abilities of the carrier offering the service to offer quality service and stimulate the market. The long-term costs of selecting a low dollar bidder may well outweigh the short-term savings after traffic has eroded away in a specific market. In order to attract adequate equity capital necessary to purchase higher cost equipment and provide quality airline services, the good carriers must be given an opportunity to succeed if they perform.

Our government has expended great amounts of resources to ensure the success of the Essential Air Service Program and as a Company, we have made the committment of millions of dolars and invested our manpower resources to the programs success. Your further support through funding of Instrument Landing System and Microwave systems, as well as improved airport facilities will make great strides in ensuring the success of this program. jAlthough we maintain excellent systemwide reliability and performance figures, we do have some cities on our system, where the long-term success of the Essential Air Service program will be in jeopardy without precision instrument

PROCLAMATION

WHEREAS, the City of Huron has long expressed a desire for efficient and reliable air service from our community to other cities in the Midwest; and

WHEREAS, after many meetings, conversations and hearings our City was privileged to obtain the services of such an airline; and

WHEREAS, in April of 1982 this airline began their service to our City and since that time the service has been excellent.

NOW, THEREFORE, I, PAUL K. FLANAGAN, Mayor of the City of Huron, South Dakota, in conjunction with the Huron Area Chamber of Commerce, do hereby proclaim Tuesday, December 7, 1982 as:

MESABA AIRLINES DAY

in the City of Huron and I urge all its citizens and persons in the surrounding area to honor Mesaba Airlines for their efficient and reliable air service to our community and also to take this opportunity to thank Mesaba Airlines for coming to our City and for taking an active part in community activities.

Paul K Flanagan

Paul K. Flanagan
Mayor

PROCLAMATION

by

The Mayor of Fort Dodge, Iowa

JAMES A. JANVRIN

WHEREAS, the City of Fort Dodge has long expressed a desire for efficient and reliable air service from our community to other cities in the midwest; and

WHEREAS, after many meetings, conversations, and hearing our City was privileged to obtain the services of such an airline; and

WHEREAS, on December 15, 1982 this airline began their service to our City.

NOW, THEREFORE, I, James A. Janvrin, Mayor of the City of Fort Dodge, Iowa in conjunction with the Fort Dodge Chamber of Commerce and the Fort Dodge Airport Commission do hereby proclaim Wednesday, December 15, 1982 as

MESABA AIRLINES DAY

in the City of Fort Dodge and I urge all its citizens and persons in the surrounding area to honor Mesaba Airlines for their efficient and reliable air service to our community and also to take this opportunity to thank Mesaba Airlines for coming to our City and for taking an active part in our community activities.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the City of Fort Dodge to be affixed this 14th day of December, 1982.

J.A. Janvrin

JAMES A. JANVRIN
MAYOR

landing systems. Due to harsh weather conditions in the Dakotas and Minnesota, we need your help to secure these needed precision instrument landing systems. The following is a detailed summary for one year of operations at a city in need of a precision instrument landing system.

MESABA AVIATION, INC.
Flight Cancellations
Worthington, Minnesota

Month	Weather	No Load	Mechanical	Holiday	Other	Total Cancellations	Total Flights Scheduled
10/82	3	1	0	0	0	4	104
11/82	1	2	1	8	0	12	106
12/82	13	2	0	8	0	23	108
1/83	9	8	0	1	0	18	104
2/83	21	1	0	0	0	22	95
3/83	13	0	0	0	0	13	104
4/83	9	3	0	0	0	12	78
5/83	2	7	1	0	0	10	106
6/83	3	6	1	0	0	10	104
7/83	0	0	0	0	0	0	104
8/83	0	0	0	0	0	0	108
9/83	0	1	1	2	2	6	104
	74	31	4	19	2	130	1,225

SUMMARY

74 flights or 6.04 % weather cancellations
31 flights or 2.53 % no passenger cancellations
19 flights or 1.55 % scheduled holiday cancellations
4 flights or .33 % mechancial cancellations
2 flights or .16 % major flu cancellations

From a reliability standpoint as a carrier, we had only six flights cancelled, out of 1,225 scheduled for reasons that we could control, for a 99.5% reliability record. Weather cancellations, however, accounted for 74 cancellations or 6 percent of all flights scheduled. This city is our lowest enplaning city on our route system and also has the worst weather and lacks a precision landing system. We believe there is a correlation between the weather problems associated with this city and the low passenger utilization.

In summary, we are meeting the mandate of Congress in providing Essential air Services, however, the growth in precision landing systems and facilities have not keptpace with the needs of the Essential Air Service program, the cities that we serve and the regional/commuter airline needs. Additionally, your efforts and support to secure better facilities and space at major hub airports is also critical to continued success of the program. As greater responsibility is passed to regional carriers to provide these services, so must the quality of facilities and quantity of space at hub airports increase. Regretfully, this has not always been the case and regional/commuters are often forced to operate under crowded and very inadequate conditions. We need funding for facilities from the Airport and Airway Trust Fund to adequately provide services to these Essential Air Service communities.

In closing, because we operate in a low population density part of our country, we believe strongly in both the needs and success of providing an excellent Essential Air Service program. Since the airline services we provide are often the only forms of public transportation available in most of our market areas, the success of the Essential Air Service program is critical to our Region.

Thank you Mr. Chairman, for giving us the opportunity to present these views regarding the Essential Air Service Programs.

Sincerely,

Robert D. Swenson
President & Chief Executive Officer

DEVILS LAKE DAILY JOURNAL

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Volume 78 Number 34•
Monday, January 23, 1984•
Twenty-Two Pages — Three Sections•

Air boardings up threefold with Mesaba

By JACK ZALESKI
Journal Managing Editor

Commuter airplane boardings and deplanements at Devils Lake are up three and one-half times since Mesaba Airlines began service here, according to airport manager Lawrence Knoke.

Knoke said today that from January through November 1983, former local air carrier Big Sky Airlines of Billings, Montana averaged 41 boardings and 39 deplanements a month. Since December 1 when Mesaba of Grand Rapids, Minn. took over, 113 persons have boarded and 90 deplaned. At the present pace this month the average will be 150 boardings and 130 deplanements, Knoke said.

"That's a increase of about three and one-half times over Big Sky," Knoke said. "We attribute the increase to a couple of things, including the competitive fare to Minneapolis-St. Paul, and the fact that the Twin Cities is a hub from which people can make connections to anywhere."

Mesaba currently provides two round trips per day to the Twin Cities with stops at Jamestown.

"People aren't driving to Grand Forks to hop a plane as they used to," the airport manager said. "It is cheaper to fly to Minneapolis from Devils Lake on Mesaba than it is to fly from Grand Forks."

Mesaba in January offered a $124 round trip fare to Minneapolis. The fare from Grand Forks is $140.

Knoke said the Mesaba fare will go to $140 in February. "But that still will be a bargain because one still won't have to drive to Grand Forks and pay for parking there," he said.

The Devils Lake Airport Authority is "very happy" with Mesaba's service thus far, Knoke said. "This is turning out better than we anticipated," he said. "We think another part of the success is that the Mesaba aircraft is quieter and roomier than was Big Sky's plane. And of course, the scheduling is a big plus for us."

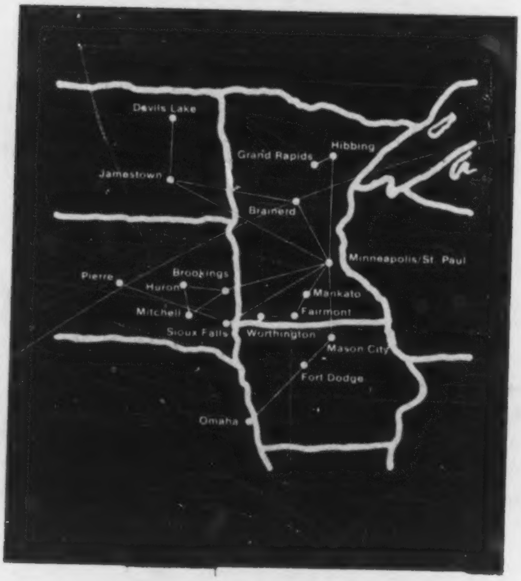
See Air, page two.

The Airport Authority and the Devils Lake City Commission last year voted to support Mesaba's application to the Civil Aeronautics Board to provide service to Devils Lake. Northern Airways of Grand Forks also had bid for the route and the federal subsidy that comes with it.

Mesaba Airlines
2002 AIRPORT ROAD
GRAND RAPIDS, MN 55744

MESABA AIRLINES

Effective December 15, 1983


Devils Lake
Hibbing
Grand Rapids
Jamestown
Brainerd
Minneapolis/St. Paul
Pierre
Brookings
Huron
Mankato
Mitchell
Fairmont
Sioux Falls
Worthington
Mason City
Fort Dodge
Omaha

Bulk Rate
U.S. Postage
PAID
Permit No. 191
Grand Rapids, MN

MESABA AIRLINES SYSTEM TIMETABLE

EFFECTIVE DECEMBER 15, 1983
ALL TIMES SHOWN ARE LOCAL

Leave	Arrive	Freq.	Flights	Stops	Conn City
[redacted]					
To					
JAMESTOWN, ND.					
1 00p	2 20p	ExSa	135	0	
MINNEAPOLIS/ST. PAUL, MN.					
4 25p	5 10p	ExSa	136	0	
[redacted]					
To					
FORT DODGE, IA.					
1 10p	7 00p	ExSaSu	504/607	2	MSP
GRAND RAPIDS, MN.					
7 15a	11 55a	ExSaSu	502/155	2	MSP
1 10p	7 50p	ExSaSu	504/159	2	MSP
HIBBING, MN.					
7 15a	11 30a	ExSaSu	502/155	1	MSP
1 10p	7 25p	ExSaSu	504/159	1	MSP
HURON, SD.					
10 55a	11 20a	ExSu	503	0	
4 00p	4 25p	ExSa	505	0	
7 30p	7 55p	ExSa	509	0	
MASON CITY, IA.					
1 10p	6 30p	ExSaSu	504/607	1	MSP
MINNEAPOLIS/ST. PAUL, MN.					
7 15a	8 15a	ExSu	502	0	
1 10p	2 10p	ExSu	504	0	
5 45p	6 45p	ExSa	508	0	
MITCHELL, SD.					
10 55a	11 45a	ExSu	503	1	
4 00p	4 55p	ExSa	505	1	
7 30p	8 20p	ExSa	509	1	
OMAHA, NE.					
7 15a	3 20p	ExSaSu	502/603	3	MSP
[redacted]					
To					
FORT DODGE, IA.					
12 40p	7 00p	ExSa	146/607	3	MSP
MASON CITY, IA.					
12 40p	6 30p	ExSa	146/607	2	MSP
MINNEAPOLIS/ST. PAUL, MN.					
5 45a	8 00a	ExSu	142	1	
12 40p	3 00p	ExSa	146	1	
SIOUX FALLS, SD.					
5 45a	11 10a	ExSu	142/523	2	MSP
12 40p	6 20p	ExSa	146/529	2	MSP
[redacted]					
To					
BROOKINGS, SD.					
7 00a	10 45a	ExSu	320/503	2	MSP
10 20a	3 50p	ExSaSu	332/505	2	MSP
4 00p	7 20p	ExSaSu	328/509	1	MSP
GRAND RAPIDS, MN.					
7 00a	11 55a	ExSaSu	320/155	3	MSP
4 00p	7 50p	ExSaSu	328/159	2	MSP
HIBBING, MN.					
7 00a	11 30a	ExSaSu	320/155	2	MSP
4 00p	7 25p	ExSaSu	328/159	1	MSP
MANKATO, MN.					
7 00a	7 20a	ExSu	320	0	
10 20a	10 40a	ExSu	332	0	
MASON CITY, IA.					
10 20a	2 00p	ExSaSu	332/603	2	MSP
4 00p	6 30p	ExSaSu	328/607	1	MSP
MINNEAPOLIS/ST. PAUL, MN.					
7 00a	7 50a	ExSu	320	1	
10 20a	11 10a	ExSu	332	1	
4 00p	4 40p	ExSaSu	328	0	
3 45p	4 35p	Su ONLY	326	1	
OMAHA, NE.					
10 20a	3 20p	ExSaSu	332/603	4	MSP
WORTHINGTON, MN.					
2 15p	2 40p	ExSu	325	0	
8 10p	8 35p	ExSa	327	0	
[redacted]					
To					
BROOKINGS, SD.					
6 00a	10 45a	ExSu	600/503	2	MSP
11 25a	3 50p	ExSaSu	602/505	2	MSP
4 40p	7 20p	ExSa	604/509	2	MSP
GRAND RAPIDS, MN.					
6 00a	11 55a	ExSaSu	600/155	3	MSP
4 40p	7 50p	ExSa	604/159	3	MSP
HIBBING, MN.					
6 00a	11 30a	ExSaSu	600/155	2	MSP
4 40p	7 25p	ExSa	604/159	2	MSP
HURON, SD.					
6 00a	11 20a	ExSu	600/503	3	MSP
11 25a	4 25a	ExSaSu	602/505	3	MSP
4 40p	7 55p	ExSa	604/509	3	MSP
JAMESTOWN, ND					
6 00a	11 00a	ExSu	600/143	2	MSP
MASON CITY, IA.					
6 00a	6 25a	ExSu	600	0	
11 25a	11 50a	ExSu	602	0	
4 40p	5 05p	ExSa	604	0	
MINNEAPOLIS/ST. PAUL, MN.					
6 00a	7 15a	ExSu	600	1	
11 25a	12 40p	ExSu	602	1	
4 40p	5 55p	ExSa	604	1	
MITCHELL, SD.					
6 00a	11 45a	ExSu	600/503	4	MSP
11 25a	4 55p	ExSaSu	602/505	4	MSP
4 40p	8 20p	ExSa	604/509	4	MSP
OMAHA, NE.					
9 05a	9 50a	ExSu	601	0	
2 35p	3 20p	ExSa	603	0	
PIERRE, SD.					
6 00a	12 25p	ExSu	600/523	3	MSP
SIOUX FALLS, SD.					
6 00a	11 10a	ExSu	600/523	2	MSP
[redacted]					
To					
BROOKINGS, SD.					
7 45a	10 45a	ExSaSu	152/503	2	MSP
2 45p	7 20p	ExSa	154/509	2	MSP
FAIRMONT, MN.					
7 45a	2 10p	ExSaSu	152/325	2	MSP
2 45p	8 05p	ExSa	154/327	3	MSP
FORT DODGE, IA					
7 45a	2 30p	ExSaSu	152/603	3	MSP
2 45p	7 00p	ExSa	154/607	3	MSP
HIBBING, MN.					
7 45a	8 05a	ExSaSu	152	0	
2 45p	3 05p	ExSa	154	0	
HURON, SD					
7 45a	11 20a	ExSaSu	152/503	3	MSP
2 45p	7 55p	ExSa	154/509	3	MSP
MANKATO, MN.					
7 45a	12 10p	ExSaSu	152/341	2	MSP
2 45p	7 40p	ExSa	154/327	2	MSP
MINNEAPOLIS/ST. PAUL, MN.					
7 45a	9 10a	ExSaSu	152	1	
2 45p	4 10p	ExSa	154	1	
MITCHELL, SD.					
7 45a	11 45a	ExSaSu	152/503	4	MSP
2 45p	8 20p	ExSa	154/509	4	MSP
OMAHA, NE.					
7 45a	3 20p	ExSaSu	152/603	4	MSP
PIERRE, SD.					
7 45a	12 25p	ExSaSu	152/523	3	MSP
2 45p	7 35p	ExSa	154/529	3	MSP
SIOUX FALLS, SD.					
7 45a	11 10a	ExSaSu	152/523	2	MSP
2 45p	6 20p	ExSa	154/529	2	MSP
WORTHINGTON, MN.					
7 45a	2 40p	ExSaSu	152/325	3	MSP
2 45p	8 35p	ExSa	154/327	4	MSP
[redacted]					
To					
BROOKINGS, SD.					
8 10a	10 45a	ExSaSu	152/503	1	MSP
3 10p	7 20p	ExSa	154/509	1	MSP
FAIRMONT, MN.					
8 10a	2 10p	ExSaSu	152/325	1	MSP
3 10p	8 05p	ExSa	154/327	2	MSP
FORT DODGE, IA.					
8 10a	2 30p	ExSaSu	152/603	2	MSP
3 10p	7 00p	ExSa	154/607	2	MSP
GRAND RAPIDS, MN.					
11 35a	11 55a	ExSaSu	152	0	
7 30p	7 50p	ExSa	154	0	
HURON, SD.					
8 10a	11 20a	ExSaSu	152/503	2	MSP
3 10p	7 55p	ExSa	154/509	2	MSP
MANKATO, MN.					
8 10a	12 10p	ExSaSu	152/341	1	MSP
3 10p	7 40p	ExSa	154/327	1	MSP
MASON CITY, IA.					
8 10a	2 00p	ExSaSu	152/603	1	MSP
3 10p	6 30p	ExSa	154/607	1	MSP
MINNEAPOLIS/ST. PAUL, MN.					
8 10a	9 10a	ExSaSu	152	0	
3 10p	4 10p	ExSa	154	0	
MITCHELL, SD.					
8 10a	11 45a	ExSaSu	152/503	3	MSP
3 10p	8 20p	ExSa	154/509	3	MSP
OMAHA, NE.					
8 10a	3 20p	ExSaSu	152/603	3	MSP
PIERRE, SD.					
8 10a	12 25p	ExSaSu	152/523	2	MSP
3 10p	7 35p	ExSa	154/529	2	MSP
SIOUX FALLS, SD.					
8 10a	11 10a	ExSaSu	152/523	1	MSP
3 10p	6 20p	ExSa	154/529	1	MSP
WORTHINGTON, MN.					
8 10a	2 40p	ExSaSu	152/325	2	MSP
3 10p	8 35p	ExSa	154/327	3	MSP
[redacted]					
To					
BROOKINGS, SD.					
6 40a	7 05a	ExSu	502	0	
12 40p	1 05p	ExSu	504	0	
4 35p	5 20p	ExSa	508	1	
FORT DODGE, IA.					
12 40p	7 00p	ExSaSu	504/607	3	MSP
GRAND RAPIDS, MN.					
6 40a	11 55a	ExSaSu	502/155	3	MSP
4 35p	7 50p	ExSa	508/159	3	MSP
HIBBING, MN.					
6 40a	11 30a	ExSaSu	502/155	2	MSP
4 35p	7 25p	ExSa	508/159	3	MSP
MASON CITY, IA.					
6 40a	2 00p	ExSaSu	502/603	2	MSP
MINNEAPOLIS/ST. PAUL, MN.					
6 40a	8 15a	ExSu	502	1	
12 40p	2 10p	ExSu	504	1	
4 35p	6 45p	ExSa	508	2	
MITCHELL, SD.					
11 25a	11 45a	ExSu	503	0	
4 35p	4 55p	ExSa	505	0	
8 00p	8 20p	ExSu	509	0	
[redacted]					
To					
FORT DODGE, IA.					
2 50p	7 00p	ExSa	136/607	3	MSP
MASON CITY, IA.					
2 50p	6 30p	ExSa	136/607	2	MSP
MINNEAPOLIS/ST. PAUL, MN.					
6 25a	8 00a	ExSu	142	0	
1 25p	3 00p	ExSa	146	0	
2 50p	5 10p	ExSa	136	1	
SIOUX FALLS, SD.					
6 25a	11 10a	ExSu	142/523	1	MSP
1 25p	6 20p	ExSa	146/529	1	MSP

MSP — Minneapolis/St. Paul   Ex — Except   Sa — Saturday   Su — Sunday

MESABA AIRLINES SYSTEM TIMETABLE

EFFECTIVE DECEMBER 15, 1983
ALL TIMES SHOWN ARE LOCAL

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
BROOKINGS, SD.					
7 25a	10 45a	ExSu	320/503	1	MSP
12 20a	3 50p	ExSaSu	342/505	1	MSP
4 00p	7 20p	ExSaSu	344/509	1	MSP
FAIRMONT, MN.					
9 35a	9 55a	ExSu	331	0	
7 45p	8 05p	ExSa	327	0	
GRAND RAPIDS, MN.					
7 25a	11 55a	ExSaSu	320/155	2	MSP
4 00p	7 50p	ExSaSu	344/159	2	MSP
HIBBING, MN.					
7 25a	11 30a	ExSaSu	320/155	1	MSP
4 00p	7 25p	ExSaSu	344/159	1	MSP
MINNEAPOLIS/ST. PAUL, MN.					
7 25a	7 50a	ExSu	320	0	
10 45a	11 10a	ExSu	332	0	
12 20p	12 45p	ExSaSu	342	0	
4 00p	4 25p	ExSaSu	344	0	
4 10p	4 35p	Su ONLY	326	0	
WORTHINGTON, MN.					
7 45p	8 35p	ExSa	327	1	

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
BROOKINGS, SD.					
6 30a	10 45a	ExSu	800/503	1	MSP
11 55a	3 50p	ExSaSu	802/505	1	MSP
5 10p	7 20p	ExSa	804/509	1	MSP
FORT DODGE, IA.					
8 35a	9 00a	ExSu	801	0	
2 05p	2 30p	ExSa	803	0	
6 35p	7 00p	ExSa	807	0	
GRAND RAPIDS, MN.					
6 30a	11 55a	ExSaSu	800/155	2	MSP
5 10p	7 50p	ExSa	804/159	2	MSP
HIBBING, MN.					
6 30a	11 30a	ExSaSu	800/155	1	MSP
5 10p	7 25p	ExSa	804/159	1	MSP
HURON, SD.					
6 30a	11 20a	ExSu	800/503	2	MSP
11 55a	4 25p	ExSaSu	804/505	2	MSP
5 10p	7 55p	ExSa	804/509	2	MSP
JAMESTOWN, ND.					
6 30a	11 00a	ExSu	800/143	1	MSP
MINNEAPOLIS/ST. PAUL, MN.					
6 30a	7 15a	ExSu	800	0	
11 55a	12 40p	ExSu	802	0	
5 10p	5 55p	ExSa	804	0	
MITCHELL, SD.					
6 30a	11 45a	ExSu	800/503	3	MSP
11 55a	4 55p	ExSaSu	802/505	3	MSP
5 10p	8 20p	ExSa	804/509	3	MSP
OMAHA, NE.					
8 30a	9 50a	ExSu	801	1	
2 05p	3 20p	ExSa	803	1	
PIERRE, SD.					
6 30a	12 25p	ExSu	800/523	2	MSP
1 [illegible]a	7 35p	ExSu	802/529	2	MSP
SIOUX FALLS, SD.					
6 30a	11 10a	ExSu	800/523	1	MSP
11 55a	6 20p	ExSu	802/529	1	MSP

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
BRAINERD, MN.					
12 00N	12 45p	ExSa	135	0	
BROOKINGS, SD.					
9 40a	10 45a	ExSu	503	0	
2 45p	3 50p	ExSa	505	0	
6 15p	7 20p	ExSa	509	0	
DEVILS LAKE, ND.					
9 20a	11 43a	ExSu	143	1	
5 30p	7 50p	ExSa	147	1	
FAIRMONT, MN.					
9 05a	9 55a	ExSu	331	1	
1 30p	2 10p	ExSu	325	0	
7 15p	8 05p	ExSa	327	1	
FORT DODGE, IA					
7 45a	9 00a	ExSu	801	1	
1 15p	2 30p	ExSa	803	1	
5 45p	7 00p	ExSa	807	1	
GRAND RAPIDS, MN.					
10 30a	11 55a	ExSaSu	155	1	
6 25p	7 50p	ExSa	159	1	
HIBBING, MN.					
10 30a	11 30a	ExSaSu	155	0	
6 25p	7 25p	ExSa	159	0	
HURON, SD.					
9 40a	11 20a	ExSu	503	1	
2 45p	4 25p	ExSa	505	1	
6 15p	7 55p	ExSa	509	1	
JAMESTOWN, ND.					
9 20a	11 00a	ExSu	143	0	
12 00N	2 20p	ExSa	135	1	
5 30p	7 10p	ExSa	147	0	
MANKATO, MN.					
9 05a	9 30a	ExSu	331	0	
11 40a	12 10p	ExSaSu	341	0	
3 25p	3 50p	ExSaSu	343	0	
7 15p	7 40p	ExSa	327	0	
MASON CITY, IA.					
7 45a	8 30a	ExSu	801	0	
1 15p	2 00p	ExSa	803	0	
5 40p	6 30p	ExSa	807	0	
MITCHELL, SD.					
9 40a	11 45a	ExSu	503	2	
2 45p	4 55p	ExSa	505	2	
6 15p	8 20p	ExSa	509	2	
OMAHA, NE.					
7 45a	9 50a	ExSu	801	2	
1 15p	3 20p	ExSa	803	2	
PIERRE, SD.					
10 00a	12 25p		523	1	
5 10p	7 35p		529	1	
SIOUX FALLS, SD.					
10 00a	11 10a		523	0	
5 10p	6 20p		529	0	
WORTHINGTON, MN.					
1 30p	2 40p	ExSu	325	1	
7 15p	8 35p	ExSa	327	2	

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
BROOKINGS, SD.					
6 15a	7 05a	ExSu	502	1	
12 15p	1 05p	ExSu	504	1	
5 10p	5 35p	ExSa	508	0	
FORT DODGE, IA.					
6 15a	2 30p	ExSaSu	502/803	4	MSP
12 15p	7 00p	ExSa	504/807	4	MSP
GRAND RAPIDS, MN.					
6 15a	11 55a	ExSaSu	502/155	4	MSP
12 15p	7 50p	ExSaSu	504/159	4	MSP
HIBBING, MN.					
6 15a	11 30a	ExSaSu	502/155	3	MSP
12 15p	7 25p	ExSaSu	504/159	3	MSP
HURON, SD.					
6 15a	6 35a	ExSu	502	0	
12 15p	12 35p	ExSu	504	0	
MASON CITY, IA.					
6 15a	2 00p	ExSaSu	502/803	3	MSP
12 15p	8 30p	ExSaSu	504/807	3	MSP
MINNEAPOLIS/ST. PAUL, MN.					
6 15a	8 15a	ExSu	502	2	
12 15p	2 10p	ExSu	504	2	
5 10p	8 45p	ExSa	508	1	
OMAHA, NE.					
6 15a	3 20p	ExSaSu	502/803	5	MSP

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
BROOKINGS, SD.					
10 35a	3 50p	ExSaSu	802/505	3	MSP
3 50p	7 20p	ExSa	804/509	3	MSP
FAIRMONT, MN.					
10 35a	2 10p	ExSu	802/325	3	MSP
3 50p	8 05p	ExSa	804/327	4	MSP
FORT DODGE, IA.					
10 35a	11 20a	ExSu	802	0	
3 50p	4 35p	ExSa	804	0	
GRAND RAPIDS, MN.					
3 50p	7 55p	ExSa	804/159	4	MSP
HIBBING, MN.					
3 50p	7 25p	ExSa	804/159	3	MSP
HURON, SD.					
10 35a	4 25p	ExSaSu	802/505	4	MSP
3 50p	7 55p	ExSa	804/509	4	MSP
MANKATO, MN.					
10 35a	3 50p	ExSaSu	802/343	3	MSP
3 50p	7 40p	ExSa	804/327	3	MSP
MASON CITY, IA.					
10 35a	11 50a	ExSu	802	1	
3 50p	5 05p	ExSa	804	1	
MINNEAPOLIS/ST. PAUL, MN.					
10 35a	12 40p	ExSu	802	2	
3 50p	5 55p	ExSa	804	2	
MITCHELL, SD.					
10 35a	4 55p	ExSaSu	802/505	5	MSP
3 50p	8 20p	ExSa	804/509	5	MSP
WORTHINGTON, MN.					
10 35a	2 40p	ExSu	802/325	4	MSP
3 50p	8 35p	ExSa	804/327	5	MSP

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
FORT DODGE, IA.					
7 50a	2 30p	ExSa	520/803	3	MSP
2 00p	7 00p	ExSa	526/807	3	MSP
GRAND RAPIDS, MN.					
7 50a	11 55a	ExSaSu	520/155	3	MSP
2 00p	7 50p	ExSa	526/159	3	MSP
HIBBING, MN.					
7 50a	11 30a	ExSaSu	520/155	2	MSP
2 00p	7 25p	ExSa	526/159	2	MSP
MASON CITY, IA.					
7 50a	2 00p	ExSaSu	520/803	2	MSP
2 00p	6 30p	ExSa	526/807	2	MSP
MINNEAPOLIS/ST. PAUL, MN.					
7 50a	10 10a		520	1	
2 00p	4 20p		526	1	
SIOUX FALLS, SD.					
7 50a	8 50a		520	0	
2 00p	3 00p		526	0	
7 55p	8 55p	ExSa	528	0	

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
FORT DODGE, IA.					
9 05a	2 30p	ExSaSu	520/803	2	MSP
3 15p	7 00p	ExSa	526/807	2	MSP
GRAND RAPIDS, MN.					
9 05a	11 55a	ExSaSu	520/155	2	MSP
3 15p	7 50p	ExSa	526/159	2	MSP
HIBBING, MN.					
9 05a	11 30a	ExSaSu	520/155	1	MSP
3 15p	7 25p	ExSa	526/159	1	MSP
JAMESTOWN, ND.					
9 05a	2 20p	ExSaSu	520/135	2	MSP
3 15p	7 10p	ExSa	526/147	1	MSP
MASON CITY, IA.					
9 05a	2 00p	ExSaSu	520/803	1	MSP
3 15p	6 30p	ExSa	526/807	1	MSP
MINNEAPOLIS/ST. PAUL, MN.					
9 05a	10 10a		520	0	
3 15p	4 20p		526	0	
PIERRE, SD.					
6 30a	7 30a	ExSu	521	0	
11 25a	12 25p		523	0	
6 35p	7 35p	ExSa	529	0	

[redacted]

Leave	Arrive	Freq.	Flights	Stops	Conn City
To					
FAIRMONT, MN.					
6 30a	6 55a	ExSu	320	0	
3 30p	3 55p	ExSaSu	326	0	
GRAND RAPIDS, MN.					
6 30a	11 55a	ExSaSu	320/155	1	MSP
3 30p	7 50p	ExSaSu	326/159	3	MSP
HIBBING, MN.					
6 30a	11 30a	ExSaSu	320/155	3	MSP
3 30p	7 25p	ExSaSu	326/159	2	MSP
MANKATO, MN.					
6 30a	7 20a	ExSu	320	1	
MINNEAPOLIS/ST. PAUL, MN.					
6 30a	7 50a	ExSu	320	2	
3 30p	4 40p	ExSaSu	326	1	
3 15p	4 35p	Su ONLY	326	2	

MSP — Minneapolis/St. Paul　　Ex — Except　　Sa — Saturday　　Su — Sunday

IMPORTANT INFORMATION

***ALL MESABA FLIGHTS** into the attractive International Airport in the Twin Cities can easily connect you with flights anywhere in the world.*

CHECK-IN TIMES FOR FLIGHTS: MESABA Airlines requests all passengers check in at our ticket counter at Gate 73, Green Concourse, lower level at least thirty minutes before flight time. Reservations not claimed at the gate at least ten minutes prior to the scheduled flight departure time are subject to cancellation.

BAGGAGE: MESABA Airlines allows a maximum baggage allowance of two pieces (24 lbs ea.) and one carry-on for each fare-paying passenger.

MESABA Airlines' liability for damage to or loss of baggage is limited to $750 per fare-paying passenger.

MESABA Airlines will not be responsible for consequences arising from delays or cancellation, or from errors in the printed schedule. WE WILL, HOWEVER, DO OUR BEST TO INSURE THAT ALL PASSENGERS RECEIVE FAST, CONVENIENT SERVICE WHEREVER POSSIBLE.

MESABA Airlines reserves the right to make fare and time changes on the schedule without prior notice.

RESERVATION INFORMATION: MESABA Airlines is part of the Escort Reservation System • Airline Alpha Code is XJ • Schedules are listed in the OAG.

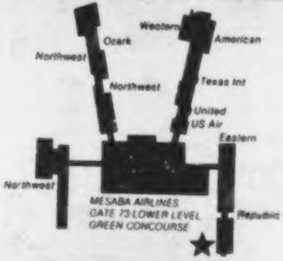
EQUIPMENT: Beech 99 • 15 Passenger • Jet Prop • Radar-Equipped • Fully De-Iced • Two-Pilot Crew.

AIR FREIGHT: Up to 150 pounds per shipment accepted on first flight available.

MESABA passenger check-in is handled at Brainerd and Hibbing, Mn., by Republic Airlines; Omaha by AAA Airlines; Pierre and Sioux Falls by Western Airlines.

EFFECTIVE DECEMBER 15, 1983
ALL TIMES SHOWN ARE LOCAL

MPLS/ST. PAUL LOCATION


Western
Ozark
American
Northwest
Northwest
Texas Int
United
US Air
Eastern
Northwest
Republic

MESABA AIRLINES
GATE 73 LOWER LEVEL
GREEN CONCOURSE

RESERVATIONS and AIR FREIGHT

Grand Rapids	218-326-6657

TOLL FREE

In Minnesota	1-800-662-5782
In N. Dak., S. Dak., Wisc., Neb., Iowa, Ill.	1-800-346-3540

TICKET OFFICES

Minneapolis/St. Paul Air Freight, Passenger/Paging & Baggage	612-726-5502 612-726-5504 612-726-5506
Brainerd	218-828-4828
Brookings, SD	605-392-1883
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Fairmont	507-235-6809
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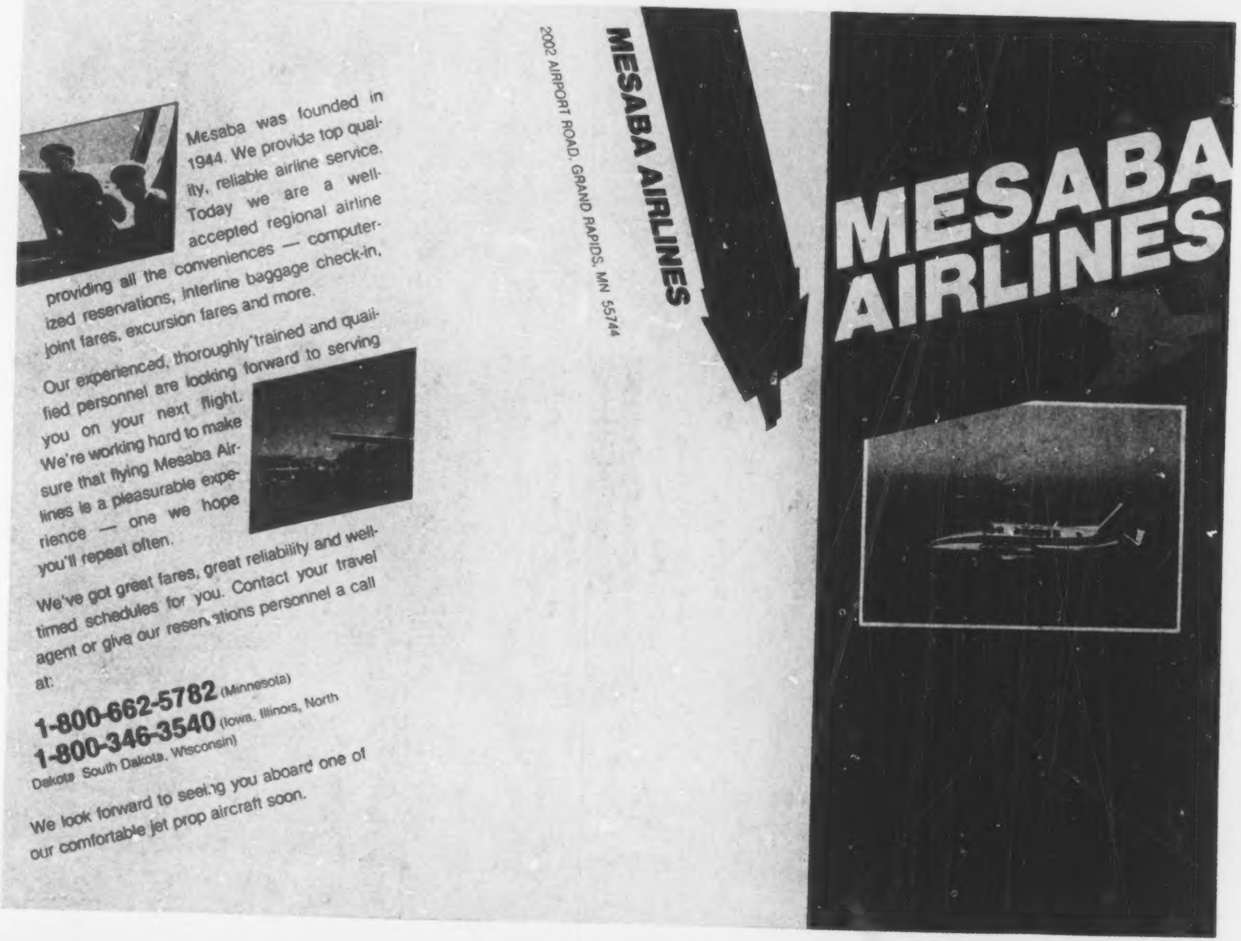

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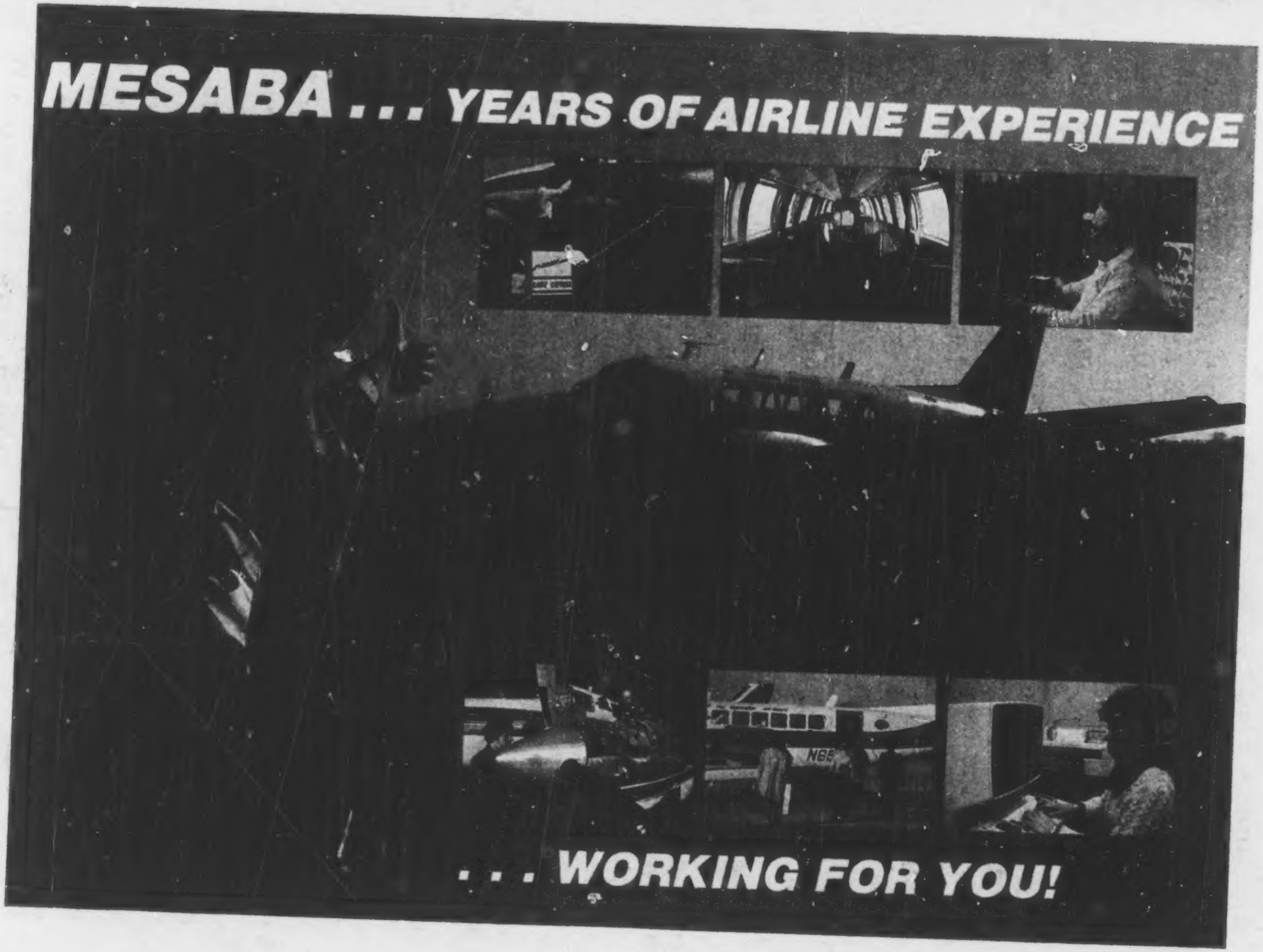
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Mr. MINETA. Please proceed.

TESTIMONY OF TULINDA DEEGAN, VICE PRESIDENT, GOVERNMENT RELATIONS, REGIONAL AIRLINE ASSOCIATION, ACCOMPANIED BY GARY ADAMSON, PRESIDENT, AIR MIDWEST; ROBERT SWENSON, PRESIDENT, MESABA AIRLINES; AND MARK MORRO, CHIEF EXECUTIVE OFFFICER, WINGS WEST AIRLINES

Ms. DEEGAN. Thank you, Mr. Chairman, and thank you for the opportunity to present the viewpoints of the Regional Airline Association on the essential air service program. With me today, are Gary Adamson, president of Air Midwest; Robert Swenson, Mesaba Airlines; and Mark Morro, with Wings West.

I will give a summary of the testimony and then each of them will give a brief history of their company's involvement with the essential air service program, and some basic views on the program, and then we will be more than willing to answer your questions.

Briefly, we at the Regional Airline Association feel that the program has generally been working as envisioned by Congress. The regional airline industry carried in toto over 20 million passengers last year. This continuing growth curve over the past 5 years and 6 years since deregulation shows that passengers are accepting our service and continuing to fly.

Indeed, the essential air service program has stayed the tide of abandonment of small community air service. Not a single community has lost all air service since the passage of the act that was part of the essential air service program.

The regional/commuter airlines have been the airlines that have picked up this service. We are currently serving over 300 of the 327 communities that were designated for essential air service. Our service has always been a cost savings to the Government. Section 406 of the old program peaked at about 106 million. The current 419 program is down to around 40 million.

There are 200 unsubsidized communities receiving essential air service, and that is an important note. Most people assume that when you say essential air service you mean subsidy. That is not always the case. Two hundred of those communities are receiving service without any subsidy.

We have some basic concerns about the program, particularly as it is scheduled to be tranferred over to the Department of Transportation. It has taken us 5 years to work out the kinks in the program. The communities, the airlines, and the CAB have all worked together to assure that the program is at its current status.

We recommend that when the program is transferred to DOT, it is brought over as a total package. Our concern is that the airlines and communities who are not part of the Washington community, and will be coming into town, will have to deal with a whole new set of people and places. Just envision that you are used to going up to the offices on Connecticut Avenue—a smaller building, a smaller staff, and now, after sunset, you will have to go to the Department of Transportation to a building that is two blocks square. The Office of the Secretary alone has 2,000 employees. So it is a much different environment that we are going to be going into in the Department of Transportation, and our primary concern is that the functions of the essential air service program will be "thrown to the wind" and that they will be segregated into type functions and become multimodal.

For this reason, we strongly urge that the transfer be done as a total unit, and that the communities and carriers be assured of "one-stop shopping."

They can just go to one office and one individual, who is held responsible. We are thinking along the lines of something like Office of Essential Air Service, where all of the air service issues from the determination to the ratemaking to any questions or problems that the communities or the carriers would be handled.

Our next concern with the essential air service program over the term is the interline system. You have heard us testify many times about how important interline traffic is to the regional airline industry. This system is undergoing some changes, evolution in the deregulated environment, and indeed the importance of having one ticket written in the small community to your final destination cannot be overstated.

It is critical that the passenger in the essential air service community be able to travel on one ticket and have the baggage handled all the way through. There have been a few events over the past couple of years that have sent some shock waves through the interline system. For instance, the Continental and Braniff bankruptcies have changed the way carriers are thinking about doing business. Some of the major airlines have gone to 30-day agreements for interline service, so we urge the committee to carefully consider the importance of interline service to the essential air service program.

The next issue that we cannot overstate—and indeed your committee is on record—is the importance of fully funding the airports served by regional commuter airlines. As you are well aware, last year the funds appropriated for facilities and equipment and the airport improvement program were slashed in the final budget cuts.

Over the period from fiscal years 1982 to 1987, the airports served by regional airlines are slated to receive some $275 million in Federal funds for improvements to these airports. These improvements will assure safe and reliable service to all of the small communities. Indeed, over 100 of the essential air service communities lack precision approaches right now and navigational aids such as NLS.

One additional point that is not mentioned in my written testimony is the issue of the hold-in subsidy. As you know, the carriers have basically played musical chairs when you are the last one left in the community you are responsible for essential air service. If the last carrier finds that it is unprofitable, then they give notice to withdraw, and then after 90 days are paid hold-in subsidy.

There have been some problems with the hold-in subsidy program, particularly the slow timeframe that the CAB takes to make the rate determination. Although they do make interim advances on it, they are very slow in determining how much you get paid for being held in there. It obviously disrupts your planning, and scheduling when you do not know when you are going to be released from the community.

Another unfair provision that slipped into the Transportation Appropriations Act of fiscal year 1983 was that the certificated carriers, accent on the certificated carriers, are paid interest on moneys owed to them through the section 419 hold-in program, but an uncertificated carrier, who is held into a program under the EAS, is not eligible for interest on any subsidies owed to them.

These are the major points of the Regional Airline Association. I thank you for the opportunity to present them, and would like to now turn over the floor to Gary Adamson, president of Air Midwest.

Mr. ADAMSON. Thank you, Tulinda. Mr. Chairman, thank you for the opportunity to appear before you today. Air Midwest was a certificated carrier when the deregulation act was passed. We were the smallest certificated carrier in the country, and we served only small communities that were contemplated under the EAS program.

Since the Deregulation Act was passed, Air Midwest has probably served EAS points under about every different manner that was ever contemplated. We have suspended service and been replaced; we have replaced other carriers; we have transferred our 406 subsidized points to the EAS 419 program. We would be delighted to attempt to answer any questions that you might have relative to our experience with EAS. We are generally satisfied with the job that the Civil Aeronautics Board has done, and we feel that the essential air service program has been a success to this point.

Mr. SWENSON. Thank you, Mr. Chairman, for giving me the opportunity to present the following viewpoints regarding the essential air service program as presented by our company, Mesaba Airlines. My name is Robert Swenson and I am president of Mesaba Airlines.

For your information, our company was founded in 1944 as an aviation services company and has now been providing scheduled airline services for 12 years. During those 12 years, we have provided reliable, safe and efficient airline service to hundreds of thousands of airline passengers in the north-central region.

As a result of deregulation and the movement of several major carriers out of small and medium-sized cities in our region, during the last few years we have expanded our services. In the majority of these replacement markets, we have carried greater passenger numbers than the prior major airline or other regional airline had at a much reduced cost.

We presently serve 17 cities in the 5 States of Iowa, Minnesota, Nebraska, North Dakota, and South Dakota. Our current route structure serves just over 7,000 passengers per month and at this traffic level, we are approximately 50th in rank among the approximately 240 regional commuter airlines in the United States. Mesaba is a publicly held corporation which has been profitable during the last 1½ years of operations.

Mesaba receives 419 subsidy for service at 10 of the 17 cities served. The level of subsidies received by the airline is generally 30 to 50 percent of the level received by the prior major airline at each point and the total public service revenues forecast to provide service to these 10 cities during the next 12 months is approximately $2.5 million, or $250,000 per city.

On the other hand, Mesaba is providing total services or supplemental services to four other essential air service points without any public service revenues. For instance, we recently replaced Western Airlines from Pierre to Sioux Falls—although the essential air service only calls for service from Pierre to Sioux Falls, we are serving the market, Pierre-Sioux Falls and Minneapolis.

We have increased the schedule and have some very competitive fares there. We are doing that on a subsidy-free basis, whereas Western Airlines had been receiving several hundreds of thousands a year to do that.

It is my position that further movement of regional carriers into essential air service markets will result in little or no additional public service revenues, since most of the remaining markets still served by major carriers will be self-sustaining for well-run regional airlines.

Although we have not been able to stimulate traffic in all of our essential air service markets above the recent levels of the major airline, we have done so in many markets. I have included a graph which shows that traffic is up in Fort Dodge and Mason City, Iowa, above the levels Ozark Airlines carried with DC-10's.

We fly Beechcraft-99. The amount of increase for the two cities is up 71 percent from a comparable period of time in the year prior with Ozark services.

In South Dakota, in three markets that we are serving there, Brookings, Huron, and Mitchell, it is a tossup between Republic Airlines prior service pattern and our own. But it is increasing every month right now.

In Brookings, we are up 61 percent. In Huron, we are just about the same level as Republic Airlines, and in Mitchell, we are down. In Mitchell, I think, we are down because of the service pattern with the multistop service pattern into Minneapolis.

In southwestern Minnesota, we receive subsidies to provide service. I think the economy has been very tough, and the market level is now clearly down, and it is hard to put a handle on those reasons.

Clearly, we believe that our company has met the objectives of Congress by providing reliable, safe and efficient replacement service in essential air service cities. An example of our reliable service is evidenced by a public survey done during January 1982 by the Metropolitan Airports Commission which revealed that 97.5 percent of our flights operated on time.

We think that our measure of reliability can hardly be surpassed by a major carrier with similar success. Although there are varying degrees of success because of individual carriers and cities, we strongly believe the essential air service program is working and I have included two proclamations by cities, one in Iowa and one in South Dakota, which had a holiday affair and proclaimed Mesaba Airlines Day in appreciation of our providing prompt, efficient, and reliable service.

In addition to relying on individual carriers to adequately serve these markets, much of the success of the program is due to yourselves and the Civil Aeronautics Board for overseeing the program.

We have found the CAB to be fair to deal with and believe the agency has done a very good job in administering the essential air service program.

Although you have to understand that every route case is reviewed under very competitive conditions—and we have not come out on top in every case—we still believe that the Civil Aeronautics Board has done a good job of handling the casework.

We do believe that the Civil Aeronautics Board should be given somewhat greater latitude in administering the program and think this may take or could take the form of allowing some new cities with potential to develop sustaining air service to qualify for the essential air service program, and it should subject some cities to the loss of status if they are not properly utilizing the service.

We believe the cities involved in the program clearly must play a critical role in insuring their success of air service. For the program to succeed, we believe quality of service and the carrier selection process must be maintained.

To accomplish this, we think the CAB should be given great latitude in carrier selection processes. This doesn't mean if two carriers are the same you choose the more expensive one.

But we do believe that the equality of carrier selected is going to play a great role in the future We think that the long-term costs of selecting a low dollar bidder may well outweigh the short-term savings after the traffic has eroded in the market.

Further, we think that carriers that are performing well should be able to, if they are performing, make a profit. We think that in order to attract adequate equity capital to finance expensive airplanes and provide a high quality level of service we have to be given the opportunity to succeed if we perform.

Our Government has expended great amounts of resources to insure the success of the program and we, as a company, have made the commitments of millions of dollars of investment and great amounts of manpower resources.

We think that there are ways that you can help us to better the program without necessarily changing the essential air service. One of those I brought with me as an example, we need precision instrument approach landing systems in many of our cities.

Although we maintain excellent systemwide reliability and performance figures, we do have some cities on our system where the long-term success of the essential air service program will be in jeopardy without precision systems.

Due to the harsh weather conditions in the Dakotas and Minnesota, we need precision landing systems. I have included as an example a summary done for the CAB. It shows that the lowest emplaning city on our system is the one where we have the greatest difficulty with weather.

You will find we, as a carrier, had 6 cancellations that we could control out of 1,225 cancellations. Of these six, four were canceled for mechanical reasons. The other two were canceled because of a major flu epidemic that happened to pass through our pilot ranks last spring.

But 74 cancellations were due to weather problems, and of these 74, the majority, could have been flown if we had the precision instrument landing systems needed.

We believe in this market there is a direct correlation between weather-related cancellations due to the absence of precision instrument landing systems and the low-passenger utilization.

In addition to landing systems, we feel that facilities at major hub airports have not kept pace with the growth in the service that the regional air carriers are providing. Clearly, we are serving a lot more cities and providing a lot more passenger traffic.

However, we feel that we need additional help and effort to secure better facilities and space at major hub airports. We feel it is critical to the success of the program.

We need your help. We feel that we need funding for facilities from the airport and airway trust fund to adequately provide services to these essential air service communities.

In closing, because we operate in a low population density part of our country, we strongly believe in both the needs and the success of providing an excellent air service program. Since the airline services we provide are often the only forms of public transportation available in most of our market areas, the success of the essential air service program is critical to our region.

Thank you, Mr. Chairman, for giving me the opportunity to present these views.

Ms. DEEGAN. Mr. Chairman, there is a correction to my testimony. Mesaba is also providing subsidized service to three Minnesota communities—Fairmont, Mankato, and Worthington.

Mark Morro with Wings West.

Mr. MORRO. Thank you. Good morning, Mr. Chairman. It is a pleasure to see you again, sir, and members of the committee.

I guess I could just about repeat some of the statements that have been made this morning by Gary and Rob. And I fully agree with Tulinda's opening comment this morning that the Essential Air Service program is meeting the transportation needs of our Nation's small communities.

I would also like to go on to say that the CAB has accomplished its mission of assuring that all eligible communities retain some, if not minimal, access to the national transportation system.

Those communities who have gained their desired levels of service, of course, are satisfied. However, those who have not are critical of the program.

Nowhere is this fact better demonstrated than in California. Wings West Airlines was born of deregulation. It came into being in 1979. Last year we flew over 250,000 passengers in California, utilizing 15- and 19-passenger commuter aircraft.

Although Wings West Airlines is the essential air service carrier for Santa Maria, both north to San Francisco and south to Los Angeles, and for San Luis Obispo north to San Francisco, we serve only Visalia, and shortly we will serve Merced under the 419 subsidy program.

Certainly the California central coast communities of Santa Maria and San Luis Obispo are shining examples of what a regional commuter carrier can do under the EAS program and by working within the community to meet that community's needs.

On the central coast, the result has been a dramatic increase in passenger traffic generated by dependable, frequent flights. These passenger numbers far exceed those of any previous carriers serving these markets.

If you would ask these communities if they would trade their present air service for any other today, I am confident that the answer would be absolutely not.

I need not tell you not all of California has been a success with the EAS program. Several California valley communities have pointed fingers at the CAB charging that the CAB used simplistic and unrealistic policies when applying them, and then applying them with rigid uniformity when previous EAS carriers were selected rather than handling the needs of each community individually.

No doubt also contributing to the EAS failures have been a high turnover of regional commuter airlines in California. With this turnover, each transition to a new EAS carrier generated traumas involving loss of passenger confidence, with the resultant problems for the new carriers serving those markets.

Although the EAS program is 5 years old, it must still be considered as being in transition, mid-life, if you would. The growing pains are difficult, probably because no aviation program is as complex and demanding as EAS.

I believe that most of you would agree that the EAS program is working better today than it has been in previous years.

With the EAS program's ultimate goal being to sustain and encourage self-sufficiency, we can all agree that to achieve this objective requires the input of the system's users, meaning both the community and the regional commuter airline.

They are, after all, most familiar with their own needs and problems. I believe I can now state that in the case of California, that the CAB today is quite flexible in adapting the EAS program to the needs of the individual communities; and that in California the program is at least now headed down the path that will give EAS the best chance of fulfilling at least a small portion of the intent of Congress.

Like others in the industry, I believe that unless the EAS program is further extended by Congress, many of the subsidized communities will lose their air service in 1988. These are communities that cannot truthfully justify their own air service.

As CEO of Wings West, I have helped to steer our airline away from those types of communities, fully aware that more than likely there is no long-term future there, no matter how much money, time, and effort is put forth.

The year 1988 could well prove to be a dead end year for both the community and the airline. While the program has succeeded in maintaining air service to eligible communities, in some ways it has failed to develop self-supporting markets.

Congress needs to provide additional flexibility to the agencies administering EAS—CAB, or if it turns out to be the Department of Transportation, by permitting the dropping of communities that show no promise of ever becoming self-sufficient. This would possibly permit higher levels of subsidy to help regional commuter airlines develop markets that show a promise of being self-sufficient.

At Wings West we concentrate our efforts on those communities that we sincerely feel will be able to come off the life support for subsidy program within the given guidelines.

We instill in the community the concept that as a team we must rebuild the air services as quickly as possible in what can only be described as a race against time. Committing additional aircraft equipment, marketing and time to any other effort could prove to be bad business.

The Wings West approach to the subsidy program can only be termed as realistic. Unlike some carriers, we do not undercut a competitor with marginal cost numbers or use passenger-use projections and creative accounting for the CAB rate conference in an effort to gain a market and receive a subsidy. To do so is a sure way to insure instability in the market place.

Are there any guarantees that our realistic approach in seeking a subsidy will work? No; there are not, but the orders are in our favor. Our recent Merced Essential Air Service award contained a revenue sharing provision. This provision would adjust the subsidy level upward or downward if actual passengers varied from projected levels.

Yes; this type of subsidy can be expensive. However, it cannot be considered as being out of line and, in fact, will give the carrier and in this case the devastated community of Merced a fighting chance to succeed under essential air service.

I applaud the CAB for the decision in the Merced-EAS case, and I applaud the community of Merced for their efforts in seeing to it that their desire to finally have a proven regional carrier utilizing a workable subsidy was, in fact, put in place.

It may be that it is only through efforts like the ones in Merced that other marginal, as I call them, essential air service communities have a chance to become self-supporting markets.

Thank you.

Ms. DEEGAN. Thank you, Mr. Chairman. We are ready to answer questions.

Mr. MINETA. Thank you very much.

Ms. Deegan, in your testimony you recommended that the EAS program be brought over to DOT as a total package, so that EAS issues can be handled on a one-stop basis. I am wondering if you could elaborate on this proposal.

I am wondering, first of all, what kind of splits in the program are you afraid that DOT will make, and what the advantage would be of having all those functions in a single office. But the thing I wanted to know was really what kinds of splits would damage the program.

Ms. DEEGAN. The main concern is that it not be split so that it is thrown in with other modes of transportation, and the actual payment of subsidies was put into, say, an office that also does the funding for the mass transit system. It has to be segregated and earmarked "air transportation."

Mr. MINETA. Have you expressed this concern to DOT?

Ms. DEEGAN. Yes; not in any formal way, but informally, yes.

Mr. MINETA. And what kind of reaction have you received?

Ms. Deegan. As you well know, the Department of Transportation is not very committal on how they are going to bring over the functions of the CAB. They have listened to us attentively.

Mr. Mineta. I have heard that some of the CAB procedures are unduly cumbersome and time-consuming, and that EAS carriers have not been reimbursed in a timely fashion. Has this been the experience of the carriers on this panel, and in general, what are your views of the administration of the EAS program by CAB?

Ms. Deegan. Do you want to split it between hold-in and then regular payment?

Mr. Mineta. All right. Fine.

Ms. Deegan. Gary.

Mr. Adamson. For the most part, I don't think we have been too concerned by it. We have been a reasonably healthy carrier for the past few years, and I think that probably has something to do with the way the situation is handled—particularly as far as being attentive to carrier needs on hold-in subsidy.

Mr. Swenson. Payments regarding subsidies, we don't have any problems with in the way they have come due. I think we have some questions about hold-in and how it works. Just in talking today, some of us have a misunderstanding of what happens in a certain market if we are forced to try and vacate the market. Let's say, would we be on a 90-day lock-in rate and after that have our expenses met or not?

We are not really certain. There might be a little confusion about this.

In the handling of some of these cases, I think it has gotten better, but there have been times in the past when a case will drag past a year. I feel timeliness is important and that the length of time just settling a case could be shortened.

It is tough to plan for equipment purposes and training purposes if you are not really certain how long it is going to take to settle a case.

Mr. Morro. Mr. Chairman, we, at Wings West, have had no problems whatsoever with payment of subsidy. My chief financial officer has not waived any red flags my way, which is indicative that the money has been coming in as promised.

I agree with Rob that some of the cases do drag out. The largest problem that presents to a carrier like us is acquiring additional equipment and staffing for the possible upstart of a new station.

Mr. Mineta. Ms. Deegan, have you talked to other members of your association about CAB policies or procedures and found much comment about the nature of the way CAB is run?

Ms. Deegan. An outstanding example is Air North which testified before your committee last summer and which had problems in the beginning of the program with upstate New York, and the EAS determination in upstate New York. Over the 5 years, a lot of these kinks have been worked out.

There are isolated instances where there have been procedural problems. And the holding site seems to be the problem area—not knowing how much you will get and when, and how long you will be left in the community and also the problem of being told you have 30 days and a new carrier will come in. You really have trouble planning.

The checks coming through for the hold-in seem to be the problem. Also the interest that the certificated carriers can receive on a subsidy that has not been paid is a concern because uncertificated carriers cannot receive interest. In particular, Rio Airlines is facing this in several of their markets out of Killeen, Tex.

Mr. **Mineta**. GAO has suggested that in some cases it would be desirable to front-load a subsidy—offering a community improved air service at a relatively high subsidy cost—in the hopes that the service would catch on and attract passengers and that in the long run the service could be provided without much subsidy.

Do you think that this approach would be desirable in any of the communities that you serve or, for that matter, for any other communities of which you might be aware?

Mr. **Adamson**. In most cases, I think that the levels of EAS that are required are pretty well front-loaded. I have yet to see very many markets that you can really develop and improve by front-loading the service to any degree.

I personally don't feel that would be very productive.

Mr. **Mineta**. Mr. Swenson.

Mr. **Swenson**. To an extent, I am not certain of the time frame in the front loading—is that 1 year, 6 months or 3 years? And that would be a concern that I would have.

I think that it is one of the main reasons for providing reliable ontime service, and I think it takes a period of time for that to catch on.

Front loading, I am not sure—it takes people awhile to schedule those trips, and it might be 2 years or 1 year before they fly. So I would have to say I would rather see an adequate program run for a couple of years anyway to get a test to a market.

Mr. **Mineta**. Mr. Morro.

Mr. **Morro**. I don't believe front loading the subsidy program, if it is for 3 or 6 months, is going to have a tremendous impact on those communities that have been affected. That, in fact, going in with a realistic subsidy that will carry you through the 2-year program on an even keel seems to make more sense for us and the community.

I would hate to put all my cookies in the one jar in 6 months and then be in trouble at the end of that time. I think I would rather stretch this out if possible over a 2-year period to develop a strong foundation for the market.

Mr. **Mineta**. Chairman McKinnon testified yesterday if the CAB does not get a fiscal year 1984 supplemental appropriation and has no funding after August 1, CAB will not be able to pay subsidy to the EAS carriers during this period. What would be the effect of a lapse in subsidy payments for the carriers in the EAS program?

Mr. **Adamson**. Are you talking about a permanent or a delayed payment?

Mr. **Mineta**. Well, it would be the months of August and September, and the question is whether or not that would be a fatal kind of cash flow problem for carriers if that were to happen.

Mr. **Adamson**. For Air Midwest it wouldn't be a fatal cash flow problem. But I feel that we have a contract with the Federal Government to provide service. If we don't receive the payment, then we don't feel we will be obligated to provide the service.

Mr. MINETA. Mr. Swenson.

Mr. SWENSON. From our standpoint, if it was a delay on payment, I think some carriers truly would probably have problems. We would not have a problem, if there was a delay for 2 months.

If there was no payment during that time we would want to know about it and we would reduce service at some of these points.

Mr. MORRO. I wouldn't be very happy about that situation at all. In Merced, for example, we have been committed to a two-aircraft program. We have gone out and acquired two Fairchild Metro-3's. These aircraft cost between $2.1 and $2.35 million apiece.

We have totally committed them to that marketplace. And to pull the subsidy out from under us would be to leave us with these aircraft payments and no place to put the aircraft during that interim period.

It would be to some carriers, I suppose, devastating. It would not be devastating to Wings West. It would surely give us some sort of a cash crunch possibly. Fortunately, it is in the summertime and that is a good season for us, so we could probably survive that. But I would not be very happy about that.

Mr. MINETA. Thank you very much. Mr. Hammerschmidt.

Mr. HAMMERSCHMIDT. I want to thank the distinguished panel of witnesses—Ms. Deegan and gentlemen. I know you are out there on the firing line.

You are the ones that have to make the system work. So we do appreciate your testimony.

One of the major criticisms we have heard about the replacement services being provided by the commuters at EAS points is that the fares are too high, prompting many travelers to take alternate transportation to reach their primary hub.

I wonder if you would comment on that, and tell us if you think that higher subsidies would result in lower fares and, therefore, higher passenger loads. Mr. Adamson.

Mr. ADAMSON. You have just touched on something that we probably have more criticisms about more than anything else, and that is our fare levels.

We, of course, charge what we feel the transportation is worth. We feel we generate the maximum number of dollars that we can, and then subsidy makes up the rest of that.

If the Government or Civil Aeronautics Board decided that they wanted to subsidize lower fares, we would be willing to enter into that type of an experiment to see whether or not we could generate more revenue by carrying more passengers.

I personally don't feel that we can. One of the things that has created this problem recently is the change in the joint-fare prorates. For us to bring our yield back up to something similar to what we were getting under the old prorates has required sometimes a 30- to 40-percent increase in fares just to compensate for that.

Mr. HAMMERSCHMIDT. Let me get into two questions here, and all of you may want to comment. Of course, we heard from Ms. Deegan, and we heard from other earlier witnesses about how important it can be for a commuter to enter into a joint-fare arrangement with a larger carrier.

Since the expiration of mandatory joint fares, would you tell us how successful your members have been in negotiating such joint-fare arrangements, and what impact has this had on the fare structure in those cases where these agreements have been signed?

This question, as well as the preceding one, all ties together. You may want to comment about fares in general.

Mr. **Swenson.** I could address our fare structure. Every air carrier is different. In our case we are what I could consider a low-cost carrier.

You can take fares on any major airline in our part of the country, compare them per mile on a local point-to-point basis, in other words, Sioux Falls to Minneapolis, or Pierre to Sioux Falls, or Omaha to Minneapolis. Our fares are, generally speaking, I would say, 20- to 30-percent less on the point-to-point basis.

On the other side of the coin, on the joint-fare situation, we have negotiated joint fares on our own with some of the major carriers. These joint fares, sometimes they don't update them in time.

We had a situation—I was through southwestern Minnesota talking with interested city officials and travel people and learned we had some fares for which it was cheaper to fly out of Worthington to Minneapolis and go to Chicago than it was if you drove 180 miles into Minneapolis and hitched a ride on the major carrier.

So, clearly, we do have some fares that are the same price; others are $10 or $20 more on joint-fare connections out of the major hub airport.

When we lost mandatory joint fares, it did affect revenues somewhat on our part. We were, needless to say, gaining somewhat on that basis. But we have been able to negotiate joint fares.

We are basically a low-cost airline as far as point-to-point traffic. We have always been $20 or $30 less than the major airlines in the same situation.

Mr. **Morro.** I believe that there may be a fallacy here concerning the fact that the cost of commuter fares are abnormally high. I think this probably stems and goes back to the $99 "transcon" fares, coast to coast. If you compare us against those, no contest.

But those fares were unrealistic. They were charging, in my opinion, below cost. We cannot have a viable air transportation system unless the airline providing the service can make a profit.

In the case of the commuter airlines, you will find quite often that more than 70 percent of our traffic is interline traffic; that is, traffic that connects on with a major carrier and goes to a further destination.

If you come out of Visalia to Los Angeles to Chicago, the fare will be $379. The portion from Visalia to Los Angeles can be as low as $10.

That is not abnormally high. If we just look at fares, they could be considered a little bit off-kilter in relation to some of the low-cost, long-distance fares. But when you tie in the programs that are available, a wide range of pricing programs available to the consumer, I think we are right in line. I must also add that California has never been known for high yields or return on a ticket. A lot of folks remember the days when you could go, and that wasn't too many years ago, between Los Angeles and San Francisco for $13.

Those days are gone. You could buy Boeing 747's for $20 million. They are $95 million now.

We must remain realistic if we are going to have a strong airline system in this country.

Mr. **Hammerschmidt**. Thank you. Ms. Deegan, do you have any expanded comments from the association on that subject?

Ms. **Deegan**. On the joint fares—the joint fares are still in existence. The cost factor has basically gone away.

As Gary pointed out, it has been bottom line—each has the same fare in the market, but the commuter takes home a lot less now, and the negotiations are spotty, as Robert pointed out. Out of the major city, you don't have a problem. But if you wanted to make it out of a less than major hub, you do have some problems in negotiating.

The add-on fare is the latest, which is advertising to the public for $10 more you can fly on. It is just another way of saving a joint fare.

The add-ons have been gaining popularity. But there, again, the carriers have less division of revenue than they had previously.

Mr. **Hammerschmidt**. Thank you, again, for your testimony and for your responses.

Mr. **Mineta**. Mr. Packard.

Mr. **Packard**. Thank you, Mr. Chairman.

I think most of you were here and listened to Senator Abdnor, who reported on the Governor of South Dakota's comments and concerns—the level of service, the size of aircraft and other areas of concern in some of the isolated areas. And I believe Mr. Adamson and perhaps Mr. Swenson service that area, to some degree.

How would you answer those kinds of concerns that we have heard from them and will hear from other isolated parts of the country in terms of trying to keep the level of service, size of aircraft at what they are accustomed to, or would like to have? How can that be provided under the present system and under the proposed system of giving additional flexibility to the EAS program?

Ms. **Deegan**. I will just give an overview to the question of whether passengers like to fly in small aircraft. The answer is yes, they must, because just about 23 million flew in small aircraft last year, and we have many, many examples of major success stories of passengers enjoying this service, especially the high frequency service of the smaller aircraft. So it is not a universal truth that small aircraft are less acceptable.

Indeed, many times they are more accepted since it does lead to higher frequency service; you can get there when you want to get there. That is the primary concern.

Mr. **Packard**. On that point, though, is it possible that there is not a choice; that if they had a choice of a larger aircraft or a smaller aircraft, they would take the larger?

Ms. **Deegan**. I think everyone would like to fly in a 747, in the club car up top. That would be nice. But you can't all afford it. It has to be economic to meet the needs of the community. And they do have an alternative—they can drive. The automobile is our primary competition.

We have to be realistic in fares, the frequency of service and the type of aircraft we use, because there is always the alternative of driving.

Mr. **Packard**. OK; from the airlines.

Mr. **Swenson**. I would go along with the majority of people who think that bigger means safer and bigger is better. I used to fly the line several years ago, get to Minneapolis, and one of the passengers would say, "I wish you were flying to Detroit or Atlanta because I much prefer flying on this airplane than a larger airplane." That was from our hometown area where we have served 12 years now, with that type of aircraft.

I guess from a carrier standpoint, in relating to South Dakota, for instance, my position as a carrier has always been if you can do anything possible to retain, let's say, a Western Airlines in a 737, by all means do that. But the day that they are going to depart town, we as a regional carrier doing a good job want to be there to provide those services. That has been our point.

I am not certain how to address your issue of how can you tie those issues together. Clearly, we cannot offer 737 service. It would take a lot of dollars to provide that type of service. So I am not really certain as to the answer on that question.

Mr. **Packard**. Mr. Adamson.

Mr. **Adamson**. Of course, I think one of the main goals on deregulation was to get rid of some of the wasteful operation of large aircraft serving very small, low-density markets. In reality, from what I have determined on our routes, where we compete with large airlines, the most important thing is when you fly. If you fly whenever somebody else wants to go, they will fly the small airplane.

There are a few people, of course—and I am one of them—that would rather fly a 737 or larger airplane. If Air Midwest is going at a time and I want to go, that is how I go.

Mr. **Morro**. If I may make a comment on this subject, California has always been accustomed to the good life. The communities there have always had Boeing 737's, 727 service, up and down the State. I think it is a process of reeducating them, showing them that that was not really the good life. If you have to depart from Santa Maria in the morning at 7 o'clock on a jet flight with three flights a day, one being at midday and one later in the day, to go to Los Angeles to connect, your connection is not until 11 o'clock in the morning, too late, prior to the midday flight. That means you have to sit around that Los Angeles Airport. And I am sure we all enjoy sitting around airports—it is not very productive.

We have proven in the State, in community after community, that what the public really wants is frequency of service. In the Santa Maria market, they had a high level of 6,500 passengers a year with the jet carrier there. By providing up to 13 flights a day—and my competitor provides five flights a day—we generate in peak months in excess of 13,000 passengers a month. That has got to tell you something, that time is important.

And it depends on the carrier serving those markets. We can get those folks to enjoy those flights if we do a good job, are on time, our aircraft are safe and they are clean. But all too often the travel agent says you don't want to fly in that little aircraft, or community leaders, out of pride or for political reasons, ask for the 737.

The reality of it is many communities will not carry as many passengers and support their local airport if it were not for the local regional commuter air service. Doing it with three flights a day in a jet just doesn't hack it.

Mr. **Packard**. So you are suggesting that passengers would prefer a six-flight schedule, daily schedule, on a small aircraft to a one- or two-flight schedule on a larger aircraft?

Mr. **Morro**. Absolutely.

Mr. **Packard**. I understand that.

Yesterday we heard from those who represented the city of Williston, N. Dak. They indicated that they were receiving at the same time both subsidized and unsubsidized service.

In any of your cities that you serve in your airlines, do you find the same thing existing where you are serving a subsidized program and there is unsubsidized service at the same city?

Mr. **Adamson**. We have just had a competitor come into three of our cities that we receive subsidy——

Mr. **Packard**. And you do not?

Mr. **Adamson**. We receive subsidy—and they have just initiated service in. Those markets are being bid on at the present time.

Mr. **Packard**. You are speaking now of a little different circumstance where you have unsubsidized competing with subsidized; is that correct?

Mr. **Adamson**. No. They are not receiving any subsidy at this point.

Mr. **Packard**. OK.

Are there any other situations where any of you are competing with unsubsidized service or major airlines?

Mr. **Swenson**. Yes. The major airline situation, we have just competed until just recently with the 406 subsidy payment cessation. We had competed with major airlines just filling gaps and offering the frequency of service—saw appropriate to certain markets.

Mr. **Packard**. This is in the EAS program?

Mr. **Swenson**. They are EAS cities that major airlines are serving that we have been offering supplemental service to.

Mr. **Packard**. Where you have that competition, subsidized service versus the unsubsidized, or the major airlines serving the same routes—I am assuming it is on the same routes—how do the fares compare?

Mr. **Swenson**. Generally speaking, our fares are less, $10 to $20 less, and we are the ones that have not received subsidy in those markets in the past.

At times, they are the same fare, to be sure. They will match our fares, for instance, in markets.

Mr. **Packard**. Are there circumstances that you are aware of, either in your serving area or anywhere else in the country, where the subsidized service is more on a competing basis with unsubsidized; has higher fares than the unsubsidized?

Mr. **Adamson**. That is the case in our situation. Our fares are higher than the people that have come in to compete with us. But one of the things that deregulation did for us was take all the logic out of pricing of airline tickets.

Mr. **Packard**. Are there times when the subsidy is simply to bring you to a break-even point? Or do you lose money on some subsidized routes?

Mr. **Adamson**. Air Midwest policy is now to operate all routes at a profit. If we cannot do so, then we will look for some other way of utilizing our resources.

Mr. **Packard**. Under the regulation you have the option to drop unprofitable routes?

Mr. **Adamson**. That is correct.

Mr. **Packard**. Do you believe that the existence of a subsidy program inhibits many commuters from providing subsidy-free service because of their reluctance to compete with subsidized carriers?

Mr. **Adamson**. Not from the experience that we are having at this time.

Mr. **Swenson**. I would agree with that.

Mr. **Packard**. OK.

Ms. Deegan, do you feel the same?

Ms. **Deegan**. Yes.

Mr. **Packard**. Thank you, Mr. Chairman.

Mr. **Mineta**. Mr. Stangeland.

Mr. **Stangeland**. I have no further questions of this panel. I think they have been very concise in their answers. It has been excellent testimony.

I just want to say we are willing to work with them and see if we cannot iron out whatever bugs are in the system now.

Thank you.

Mr. **Mineta**. Let me quickly ask this, another suggestion has been that CAB be given flexibility to end the eligibility of some cities at which EAS is providing only limited benefits and the subsidy cost is very high.

Do the members of the panel think that that would be desirable? And are there many cities which should be taken out of the program?

Ms. **Deegan**. An overall position would be that the purpose of the essential air service program was to protect those communities who had the protection of regulation before deregulation, who had been put on a certificate and given service by the CAB, so there was some protection. Clearly, there are some communities that economically do not justify service now.

It is a political question whether they should continue to receive subsidy and service. I think the carriers can speak from less of a policy position and more of a real world situation as to some of these communities, as to whether they would ever sustain service.

Let me turn it over to the carriers.

Mr. **Mineta**. Now, now, now. Policy does reflect the real world.

Mr. **Adamson**. Well, actually when the Deregulation Act was passed, there were some communities that had lost service, that ended up regaining service. I am not aware of any of those that really deserved it.

It is a little difficult to speak because we have our own problems, political problems. But there are some communities that just are not isolated. The majority of the traffic goes on the highway, regardless. We have one city—here I am getting in trouble—that is closer to the Wichita Airport than half of the city of Kansas City is to their airport, and they receive subsidized air transportation and utilize it very sparingly.

Mr. MINETA. Mr. Swenson.

Mr. SWENSON. I think that if subsidy levels are high per passenger—for instance, that the CAB should be given some latitude to put criteria limits, perhaps—there should be certain factors, reasons why they would continue at those higher levels. That is where I guess I believe that the Civil Aeronautics Board could be given greater flexibility to administer the program.

At the same time, I am not saying that as just totally reducing the level of service in the country. But my thought is that since many of these cities have been on the program for 20-some years, for instance, maybe there have been economic changes throughout our countryside, and there are cities that are growing and developing, and they could grow and develop a lot more with adequate air service in our part of the country.

You can look at our State and see the cities with air service are basically the ones that have developed. I think perhaps the cities that are not using the service, there should be a high criterion put on them as far as to why and limits; and if some of those resources were diverted to other areas, let's give them a chance to develop some air service. That is just a thought on my part.

Mr. MORRO. Clearly, there are communities that today, if they were to be reevaluated, are not isolated, are close to interstate highway transportation, and in some cases time is not that much of a factor in getting to a hub city. That probably should not be part of the essential air service program.

How many? I don't know for a fact. There are some that cross my mind. However, I would not speak up at this time on those California cities because I think it would be unfair without a complete evaluation of those communities.

In my testimony, I did state that I felt that some of those communities, the resources that are put into those communities and the time that is put into those communities can be better utilized elsewhere. And we might, as Mr. Swenson brought up, find that during the time period that has passed there are other communities growing out there that could be in need and the money spent much wiser by transferring those funds that were at the community that has no hope of ever sustaining air service on its own, to those communities that can build a reliable and dependable foundation for good air service.

Mr. MINETA. It has been alleged that one of the deficiencies in the EAS program is that CAB operates a low-bid system and considers only how cheaply service can be provided.

Has this been the experience of the carriers of the panel?

Mr. Morro.

Mr. MORRO. That is an interesting question. As I mentioned in my testimony, I think the attitude has changed. Maybe in the beginning there was this rigid conformity to the policy and much concern with the dollars spent. However, I think that recently—as indicated by our recent Merced award—that there has been some rethinking in this area, that maybe that was not the way to wisely spend the money; that, in fact, it was false economy—that we were going to come back and keep doing it over and over again until the subsidy program ran out rather than give a community or an air carrier that was realistic in its bid the opportunity to go in with a better chance of rebuilding that air service than giving that air carrier funds that were, quite frankly, not going to hack it.

I believe that the CAB has changed their philosophy, and it is for the best.

Mr. **Mineta**. Mr. Swenson.

Mr. **Swenson**. I guess from my standpoint, I would like to say that when we have had the community support and been the low bidder, we have won the case. When we have had the community support and been the moderate bidder, we have lost. I know that they will pick high bids.

Clearly, it is a concern of ours. I believe it is a concern of ours because perhaps on the Civil Aeronautics Board, dollars have been brought into discussions that low bid, all things being equal, or whatever—you know that low bid was something that was looked at and evaluated. So we do have a concern that low bid should not be the primary focus.

All things being equal, it should be the focus. But we are concerned about the quality of service and the quality of carrier selected.

Mr. **Mineta**. Mr. Adamson.

Mr. **Adamson**. We will find out in our recent New Mexico case, because we have two people that have underbid us. We will find out.

Mr. **Mineta**. Well, thank you, Ms. Deegan, Mr. Adamson, Mr. Swenson, Mr. Morro, for your help in enlightening the subcommittee on this very important program. Thank you very much.

Next we have the very distinguished executive director of the Minneapolis/St. Paul Metropolitan Airports Commission, Mr. Lawrence McCabe, to be accompanied by Mr. Richard B. Keinz, assistant commissioner of aeronautics, Minnesota Department of Transportation, and Mr. William Bassett, director, Local Airline Service Action Committee.

Mr. McCabe, it is always good to have you come before the subcommittee. Please go ahead and introduce your colleagues and proceed in your own fashion.

TESTIMONY OF LAWRENCE E. McCABE, EXECUTIVE DIRECTOR, MINNEAPOLIS/ST. PAUL METROPOLITAN AIRPORTS COMMISSION; RICHARD B. KEINZ, ASSISTANT COMMISSIONER OF AERONAUTICS, MINNESOTA DEPARTMENT OF TRANSPORTATION; AND WILLIAM BASSETT, DIRECTOR, LOCAL AIRLINE SERVICE ACTION COMMITTEE

Mr. **McCabe**. Thank you, Mr. Chairman.

It is, again, a pleasure to appear before this committee, Mr. Chairman. Appearing here today as executive director of the Minneapolis/St. Paul Commission, I am also accompanied by Richard B. Keinz, assistant commissioner of the aeronautics division of the Minnesota Department of Transportation, and Mr. William Bassett, the city manager of the city of Mankato, and also a director of the Local Airline Service Action Committee, which represents 12 communities in Minnesota that are concerned about the essential air service program.

While this is my first appearance before this committee in my new capacity as executive director of the Metropolitan Airports Commission, it is the third appearance in the last 3 years by these same organizations on this same important subject.

If our repeated appearances here suggest to you that we in Minnesota are alarmed about the essential air service program, it is because we are. Local airline service in Minnesota has deteriorated sharply since deregulation, and we are very fearful that the worst may be yet to come. In our view, this should not have happened and it need not happen in the future if Congress is willing to enact some modest and sensible changes in the program.

We are here to offer specific suggestions for such changes. We are not here to repeat the history of our past problems with the essential air service program. These were detailed last June in testimony given by Dick Keinz, Bob Anderson, our LASAC president, and myself.

Let me say that the same insidious process goes on. The recession—which hit Minnesota hard—combined with the PATCO strike and barebones essential air service as prescribed by the CAB, has caused traffic to decline. This has given the CAB a further excuse for reducing its essential air service commitment. This has led to further reductions in service and further losses of traffic to the point that some of our cities are enplaning 25 to 75 percent fewer passengers than in the immediate post-deregulation period.

As a result, the CAB's predictions have become self-fulfilling. The chances of cities in this situation retaining air service without subsidy after the end of the EAS program in 1988 are next to nil.

We don't believe that is what Congress had in mind when it authorized a 10-year essential air service program. As we look at the legislative history of the Airline Deregulation Act, including statements and amendments offered by you, Mr. Chairman, we conclude that Congress did not intend the CAB to preside over the demise of small city airline service if there was some reasonable way to avoid it. Obviously, Congress did not expect exorbitant subsidy payments. Nor do we.

However, what Congress was looking for, and what the cities and States badly need, is an essential air service program that encourages progress toward self-sufficiency, a program that will give cities the maximum incentive to help themselves and will give airlines the maximum incentive to improve traffic and reduce subsidy.

The reason this hasn't happened is because the focus of section 419, especially as administered by the CAB, has been too narrow. Instead of encouraging progress toward self-sufficiency, it has kept small cities on a kind of semi-starvation diet of air service, one which almost guarantees a continuing downward spiral of traffic and the ultimate loss of all service.

We are not alone in reaching that conclusion. As you know, the Comptroller General issued a report last May entitled "More Flexible Eligibility Criteria Could Enhance the Small Communities Essential Air Service Program." That report finds that the traffic at subsidized points has declined by 50 percent since deregulation. It concludes that, unless something is done, airlines are likely to abandon or substantially reduce service at most points when the EAS program ends.

The Comptroller General recommends that cities be given a chance to achieve self-sufficiency. This would be done by subsidizing increased levels of air service that will encourage traffic development. On the other hand, if a city has no reasonable prospect of supporting air service, the Comptroller General recommends that it be dropped from the program entirely.

We agree with the Comptroller General's basic approach. Subsidies should be at a level that will encourage, rather than discourage, traffic development and self-sufficiency. However, there are ways that better air service can be encouraged without subsidy increases. These should be available as an alternative to increased subsidy.

We have two such approaches to suggest. Each is related to a source of support for small city airline service that is now being largely ignored: One, beyond-hub revenues; and, two, State and local assistance. Let's consider them separately.

One, beyond-hub revenue: The EAS program usually pays subsidy for service to one nearby airline hub, sometimes to two hubs. In computing subsidy needs, the Board looks only at the revenue from traffic to or from the hub. Except in very high-density market, that revenue is never significant and is often inadequate to support service to the hub.

These same cities, however, are generating vastly larger airline revenues from passengers flying to other beyond-hub cities. Our testimony last June pointed out, for example, that 97 percent of the revenue passenger miles generated by Brainard, Minn., is for travel to and from points beyond the Twin Cities hub. Even International Falls, which is much further from the Twin Cities, generates 90.7 percent of airline passenger miles in markets beyond the Twin Cities.

This kind of relationship is not confined to Minnesota. It is nationwide. If a small city is going to support air service, it generally is not going to do it on traffic to the nearest hub. The beyond-hub traffic must ultimately pay for the service. Today, that beyond-hub traffic is transferred at hubs from smaller airlines that are paid subsidy for every passenger they carry to larger connecting carriers that make a profit on the same passengers.

Under the EAS program there is no systematic way of using these beyond-hub revenues to support small city service. In some cases the long-haul airlines are already paying extra for such feed traffic through joint fare divisions or other interline arrangements favorable to the feeder airline. However, there is not always an incentive to do so.

A system needs to be created to increase the incentive for long-haul airlines to provide, or support, service that feeds them from subsidized points. This would be the case if the Board were authorized to grant exclusive service rights to small cities and to approve agreements between airlines aimed at exploiting these exclusive rights.

To obtain such exclusive rights an airline, or a combination of airlines, would have to make a binding commitment as to the quality of local and beyond-hub through services and fares that would be offered. Such a commitment obviously could not cover service to all beyond-hub destinations but should cover at least three of the six leading ones.

Competing applications for exclusive rights would be encouraged with the choice going to the proposal that would have the most favorable effect on traffic and subsidy. The award would be for a period of several years—long enough to encourage the carrier or carriers to invest in the kind of service calculated to maximize traffic.

Two. State/local cost sharing: Few people realize that section 5 of the Airline Deregulation Act provided for a joint study to be made by the CAB and DOT on the feasibility of joint sharing of subsidy cost between the Federal Government and State and local governments. Such a study was made and submitted to Congress on January 1, 1980. It endorsed the concept of cost sharing citing numerous precedents in other fields such as railroads and airports.

Like many such other studies, nothing was done to implement it. We think the time has come to move in that direction. The EAS program should be amended to require the CAB to approve service proposals initiated by States or localities where the service plan contemplates a non-Federal contribution of at least 20 percent. If requested by local authorities, the CAB should also be authorized to grant exclusive rights to serve the small city.

The Board should be directed to approve the airline selected by the State or locality, if requested to do so and if the airline satisfies its fitness standards. It should also take account of indirect as well as direct State and local assistance. It may be that a State or locality cannot pay direct subsidies but would be prepared to lease or guarantee the purchase of aircraft to an airline, or to grant free facilities or the like. To the extent these reduce subsidy needs they are as valuable as direct subsidies.

Three. Extension of EAS program: Our third proposal is related to the first two and has to do with the terms under which a city should continue to qualify for the EAS program after 1988. As a general principle we think the program should be extended for 10 years from now. Because of the recession and CAB policies, most cities have not been given a fair test of their traffic-generating ability.

If a city has a chance to make the grade with better service, whether with more Federal subsidy as recommended by the GAO, or by taking advantage of one of the new alternatives we are proposing, it should have that choice. The year 1988 is too soon to call a halt to the test. An extension will also allow time for States and localities to enact legislation to take advantage of the cost-sharing program.

As part of the extension, the EAS guidelines should be amended to make clear that the purpose of section 419 is to build self-sufficiency, not preserve bare-bones service until the program expires. The new criteria for EAS service should also include recognition that air freight service is vitally important to many cities and needs to be taken into account.

Finally, we agree with the GAO that if a community has no prospect of ever becoming self-sufficient, the CAB should be authorized to terminate its service. The Board, however, should not have discretion to drop cities which are taking part in either of the new programs we have suggested or which are able to develop prescribed minimum traffic levels after a fair test with service designed to promote traffic.

In closing, let me emphasize that we are not making these proposals because we accept the view that there is something inherently wrong about subsidies for small city air service. Transportation subsidies have traditionally been available to meet larger public purposes. Subsidized service to small cities and isolated areas serves such a purpose as the policy statement of the Deregulation Act makes clear. In any case, section 419 subsidies are insignificant in budget terms and are dwarfed by other subsidies, such as those for urban rail transportation.

Our proposal is nevertheless intended to be a realistic response to the current budget climate. It accepts and builds upon the GAO recommendations in ways that will help increase the chances of self-sufficiency and reduce Federal subsidies further.

For the first time, it would give small cities a chance to show what they are and can do with favorable service incentives and, hopefully, a favorable economic climate—conditions that have been largely missing since deregulation. We urge your careful consideration of it.

Mr. MINETA. Thank you very much, Mr. McCabe.

Mr. Bassett or Mr. Keinz, do you have a statement to present?

Mr. KEINZ. Well, Mr. Chairman, I am Dick Keinz from the Minnesota Department of Transportation. I would just like to endorse what Mr. McCabe has said, and further elaborate. The medium- and small-size communities should be given a fair test and should be given a fair chance, and we just don't think we are getting that at this time.

Mr. Swensen preceded us on a panel and commented that the EAS program was very competitive, and I submit to you that it certainly is very competitive. The carrier who supplies essential air service to medium- and small-size communities must be given a budget to promote and develop the service.

We found out that the service from Worthington, Fairmont, Mankato, Minn., to Chicago or New York and Dallas is not even listed in the official airline guide, Mr. Chairman. The people in town don't know they can get from Worthington to Chicago on an interlining or joint fare agreement, and by having the carrier such as Mr. Swenson swing through town and promote the service to the local chamber of commerce once in the several years he has been there, or twice maybe, and advertised once in the local paper, doesn't quite do it.

The man on the street in Worthington does not know he can get from Chicago, and, worst yet, the people from Chicago and other cities don't know they can get to Worthington, Minn. It is just not listed in the official airline guide, and the travel agencies are unaware of the interlining and joint fares. Also on the panel preceding us, Ms. Deegan and Senator Abdnor too reported the remoteness of Pierre, and availability of small aircraft and the low bid kind of applications of potential EAS carriers to CAB.

On the acceptability of the small aircraft is there one thing. We are not talking about 737's and 727's and certainly 747's. We are talking about small aircraft. The last EAS award in Minnesota was to Thief River Falls, and that award was given to a carrier who flies Beechcraft, Queenair piston aircraft, seating eight people. It is my understanding they even had trouble last fall and served that route segment in a single-engine Cessna. That is small aircraft, Mr. Chairman. That is really small aircraft, and the alternative to drive is not an acceptable alternative, as Senator Abdnor pointed out.

Thief River Falls, Minn., to its hub, Minneapolis, is the same distance as Minneapolis to Milwaukee, or more graphically to this group, the same distance as it is from District of Columbia to Cleveland. You are not going to drive on business to transact business in Cleveland, and Thief River Falls is that distance from its hub, Minneapolis-St. Paul International.

I would like to sincerely endorse, and Representative Mineta, I am sure you would agree, Mr. Swenson's request to you for prodding, cajoling, budgeting, providing funds for whatever the FAA requires to expand its microwave landing system program. The overflights of the EAS cities that don't have precision approaches are very critical. The worst one on Mesaba's whole system I believe is Worthington, Minn., the number of overflights that have happened there. For some reason or another they have got unusually unflyable weather without adequate navigational aids.

The FAA just in the last 2 weeks has opened bids on a 172 microwave landing system, and that is fine. That is their 5-year program. They should be talking about 1,200 in 5 years, and we think the money is there. You know that the taxing mechanism is in place, and the funds are available, and the F&E budget of the FAA needs to be set so that they can implement an accelerated program of precision approaches.

Right now I think that would be MLS, the microwave landing systems. Twelve hundred of those systems in the next 4 or 5 years would be much more realistic and provide adequate scheduled service to these essential air service points.

As a final note, and Mr. McCabe mentioned it just briefly, I am not sure that we need to be as alarmed about providing what is called subsidy, or I call it operating assistance, to intercity transit by air. The extension of the EAS program for another 10 years is certainly commendable, and I certainly support that. I don't know why we even have to be real concerned about warning the EAS carriers and the CAB that eventually the rug is going to be pulled out from under them.

I am not sure we have given the D.C. Metro transit system the same warning that we eventually we are going to pull the rug out and stop providing the $100 million a year to the D.C. Metro. It is like Senator Abdnor said; if they had to pay for the service themselves, they may not even rate first-class postage in South Dakota. We are a big country, and we are an accumulation of smaller cities, and we need to recognize that, and I don't see anything wrong with admitting it is in the public interest to have scheduled air service to some of these remote locations.

Mr. BASSETT. Mr. Chairman, I am William Bassett, city manager of the city of Mankato and also a representative of the Local Airline Service Action Committee, 11 cities who are certificated cities or now are EAS cities.

Our concern is that we feel like Mr. McCabe has presented to you, that there is a need to change direction. The present essential air service program is not enhancing local air service. It's not entirely of their own doing, but in this particular economic time, the approach they are taking doesn't recognize that perhaps we are facing an anomaly in local communities in terms of their economic experience.

In Mankato, from 1978 to 1982, the enplanements went from 7,400 passengers to just under 1,500 passengers. Those 6,000 travelers have not disappeared; they are still traveling, some less frequently, obviously because of economic conditions, but many because of the change in the air service that is being provided at Mankato.

We think there is a need for promoting the air service. We don't feel that you have to fly a 747 into Mankato to provide adequate service, but we do think that we need time to attract those passengers back to the air service that can be afforded.

Presently the CAB is suggesting that our service be cut almost in half, as a result of the experience during that period from 1978 to 1982. We think that is counterproductive. We would support the kind of proposal that Mr. McCabe just presented to you, and we think that that is the kind of proposal where local communities can make a contribution and have a voice in the decisionmaking that will enhance the opportunities for increasing air service in rural Minnesota and South Dakota.

Once again, I would like to thank you for the opportunity to appear here, and I would be happy to answer any of your questions.

Mr. MINETA. Thank you very much. Your testimony, Mr. McCabe, suggests that the EAS program would be improved if the EAS carrier obtained a better joint fare division from long-haul carriers operating beyond the hub served by the EAS carrier. To encourage long-haul carriers to grant more favorable revenue divisions, as I understand it, you urge that EAS carriers be given exclusive rights to serve EAS cities.

Has there been any experience in Minnesota to suggest that competition at EAS cities has been a problem, and do any of the Minnesota EAS cities currently receive service from more than one carrier?

Mr. MCCABE. Mr. Chairman, I am not aware of them, but the previous testimony of one of the gentlemen did indicate that he did have some competition from a nonsubsidized carrier, and this type of proposal would prevent that kind of competition, where a carrier, a large carrier and an EAS carrier, would jointly get together to promote and develop traffic in a small community, and then, as the traffic built to some higher figure, to have some come in and start skimming the cream off is of course very disappointing and very discouraging, for some period of time.

Mr. STANGELAND. Would the gentleman yield?

Mr. Mineta. I would be more than pleased to yield to my colleague.

Mr. Stangeland. On that point, Larry, if you have one carrier who has developed the business, and if he has entered into agreements with the ongoing carriers, the end of it, winding in, isn't it almost impossible for anybody to come in and skim any cream? Isn't it almost like an exclusive franchise?

I guess the exclusive franchise thing is intriguing to me because I see it doubtful that you are going to see a competitor come into Bemidji and try to compete with Thief River. That is about an exclusive contract up there. It would seem to me there is almost room in Mankato. If the guy comes in, unless he comes in with the intention of being cutthroat——

Mr. McCabe. That is it.

Mr. Stangeland. These commuters, there are few who are able to financially cutthroat, are there?

Mr. McCabe. Mr. Chairman, Mr. Stangeland, in the previous testimony the midstate carrier indicated his fares were higher and this other carrier came in with a lower fare even though he was unsubsidized. So there was obviously some type, if you want to call it cutthroat or whatever. It is surprising what some carriers will do to try to get a foothold in a particular market, particularly one that all of a sudden starts to come to life.

Mr. Stangeland. Following that up, if I may, Mr. Chairman. Do you think that eliminating this threat of entry would be sufficient reason for larger airlines to enter into these joint fare types of agreements with commuters?

Mr. McCabe. Mr. Chairman, Mr. Stangeland, I think when you look at the Alleghany commuter system, this is a method of doing that. And they have been quite successful in many instances. I think it could happen in some places, sure.

Mr. Stangeland. Thank you, Mr. Chairman.

Mr. Mineta. In your testimony, you suggest that the EAS program should be amended:

> To require the CAB to approve service proposals initiated by States and localities where the service plan contemplates a non-Federal contribution of at least 20 percent.

To what extent would there be any flexibility in that, or do you literally mean that the CAB ought to go ahead and approve the proposal, if non-Federal sources were willing to put up that 20 percent?

Mr. McCabe. The 20 percent, Mr. Chairman, would come possibly from the State or the local community.

Mr. Mineta. And are you saying that the CAB ought to go ahead and automatically approve that kind of an application, where the non-Federal sources amount to the 20 percent?

Mr. McCabe. If the carrier meets the requirements, and if the community has got that much interest in it, and it meets the general criteria, yes.

Mr. Mineta. If the CAB is picking up 80 percent of the costs, though, shouldn't they have some flexibility in determining whether or not the proposal is sound, or have the discretion at least to be able to make that kind of a decision?

Mr. McCabe. That is what I have suggested, that if it meets all the other criteria that the Board normally uses in selecting a community, isolation factors and so on, then that would be true.

Mr. Mineta. Your testimony also endorses the suggestion by GAO that higher levels of subsidy be authorized to permit a city to receive more than minimal service, in the hopes that the new service will catch on and become self-sufficient. Yet at yesterday's hearing both CAB and GAO were of the opinion that there were not many cities at which this type of experiment would be successful.

Do you think that there are a number of Minnesota cities at which additional front-end subsidy would be likely to lead to a substantial increase in the use of air transportation, and could you explain what type of improved service you would recommend, and why this service would be likely to attract large increases in traffic?

Mr. McCabe. Mr. Chairman, I think the front-end funding has to be extended for some period of time. I don't think 2 or 3 months is going to do it, but I do think some number, 1 year or 2 or 3, would certainly have some benefits. I can give you a little example that we have experienced here in this last year. Our passenger traffic at the Minneapolis-St. Paul International Airport has grown 5 or 6 percent, and the amount of cars parked in our parking facilities has increased by something like 30 percent.

Now we can't explain this, but the only thing that we feel is that people from smaller communities throughout the area that we serve, which is well beyond the borders of the State of Minnesota, goes out to four or five States, are getting in their cars and driving. And why are they driving? Either they don't like small airplanes or the fares are too high, or for some reasons like that. So we are suggesting that if there were a better subsidy program, that in some of these communities the air carrier could provide a more substantial service with a larger airplane.

Contrary to what is happening in California—and I must point out that we have got to be careful that we don't talk in generalities, because certain parts of the country have different needs than other parts. It happens in our part of the country that having a large number of flights per day doesn't seem to be the answer, but having a larger airplane that would be departing in the morning and returning in the evening would do a better job. In other words, the number of seats over the entire day doesn't do it; it's better to have a larger number of seats in the morning and a larger number in the evening.

If you could concentrate those in the morning and in the evening it would be better. So if a replacement carrier could serve these communities with something larger than a Beech-99, I think that they will see an increase in the number of passengers. You can look at Worthington, Fairmont, and Mankato, are three weak revenue-generating points in the State, and when they got Beech-99 service the passengers went down, and it is down to 13 a day. That is a substantial drop from when they had Convair service.

The other thing, of course, is a lot of these communities depend on the aircraft and the carrier for air freight, and in the smaller airplane it is next to impossible to carry any substantial amounts of air freight. So with a larger airplane, and in some cases pressurization has some benefits also. Also in the adverse weather conditions that we have in the Midwest, the larger airplanes oftentimes have better capabilities of flying in known icing conditions.

Mr. MINETA. Your testimony indicates that you agree with GAO that if a community has no prospect of ever becoming self-sufficient, the CAB should be authorized to terminate its service. However, you go on to state that the Board should not have discretion to drop cities which are taking part in the two programs you have suggested.

Which two programs are you referring to? Don't you think that there should be some point at which a city participating in an experiment should be dropped, if traffic fails to materialize?

Mr. MCCABE. Certainly, Mr. Chairman, we agree with that, and the flexibility that we are talking about is on the upper end of the range, not necessarily on the lower end. We are suggesting that the CAB be allowed to eliminate cities, if the city no longer wishes to provide, and the State, the subsidy that we are talking about, a minimum of at least 20 percent, and the community had a fair trial, where we didn't have any depressions or strikes or what have you, over a sufficient length of time. Then, yes, they should then have the right to drop the city from the air traffic system as we know it.

Mr. MINETA. You are active in AOCI and the American Association of Airport Executives but has there been much discussion about what the EAS program ought to look like, the organization, once it gets over to DOT?

Mr. MCCABE. By AOCI, Mr. Chairman?

Mr. MINETA. Right. Has there been much of a discussion along that line?

Mr. MCCABE. Not yet. I think we do share the concerns of the commuter organization about splitting things up and not having a central office. I think generally we do have those concerns also.

Mr. MINETA. Just one last point, Mr. Keinz; with regard to your reference to funding, the Secretary of Transportation has been very successful, without any doubt, much to her pushing, on the funding levels that she has been able to get in the fiscal year 1985 budget for AID, which is at $987 million, as I recall; F&E is $1.687 million and is $250 million higher than the authorized amount.

That means we are going to be able to carry over funds from previous years and to put some extra money into facilities and equipment. Hopefully, as we shepherd these amounts through the Appropriations Committees, that those amounts will be sustained and be able to benefit communities that need this type of equipment. It is something that all of us will be watching very carefully, but she was successful in doing that. Larry?

Mr. MCCABE. Mr. Chairman, we are pleased to see that the CAB supports CAB sunset legislation, and we have been disappointed that the Department of Transportation opposes such legislation, because we understand that they are suggesting that there should be more flexibility in the EAS program. But in order to get this flexibility, we do have to change the law, and we are suggesting that this be opened up so we can amend it.

One last thing. It was pointed out to me that the committee report back on May 19, 1978, on deregulation, on page 12—and I quote from it just one sentence—said:

> The bill further provides that the Section 406 subsidy program will terminate 10 years after enactment. At that time Congress will be able to review and develop further programs for subsidizing of small community air service.

That is kind of an interesting sentence, that sometimes we forget about committee reports that have been made several years prior.

Mr. **Mineta**. Thank you for reminding us. Mr. Stangeland.

Mr. **Stangeland**. Thank you, Mr. Chairman.

Larry, I want to personally welcome you to the committee, and Mr. Bassett and Mr. Keinz. Congressman Weber asked that I express his regrets; he had another committee meeting that he had to attend, and so he couldn't stay for your testimony, but his absence here certainly is not a lack of interest in good air service for our rural Minnesota communities, and of course I share that, because I serve that district of Thief River Falls and I know how far it is from Thief River to Minneapolis. Sometimes you wonder if you can get there from here, too.

Some of your points I think are well taken. I don't have a lot to add to the chairman's. I guess I would just like to pursue the exclusive rights just a little bit further. Do you see any problem with the granting of exclusive rights, and an airline building a business in a city, but then because of that exclusive right that they have, of perhaps not providing the kind of service that maybe they started out to provided or intended to provide or whatever, or getting the exclusive right and never ever really providing the kind of service that community deserves, but there they sit with that exclusive right?

Mr. **McCabe**. Mr. Chairman, Mr. Stangeland, I think that that would be something that the Board or its successor would have to administer.

The second thing would be it would not be that long a period of time that the agreement would be drawn for, as we see it. Possibly maybe only a 3-year period, so if they didn't really live up to what they said they were doing to live up to, and the Board could not force them to live up to it, the end of the contract would come and they would seek some other method of providing a better service.

Mr. **Stangeland**. And then just to add to the chairman's question on the cost sharing, do you agree with the CAB's position that very few localities would volunteer to share the cost of providing a subsidy, or do you disagree?

Mr. **McCabe**. Mr. Chairman, Mr. Stangeland, I think when the community finally realized that they have got to put some money where their mouth is or by golly, they are going to lose service, finally, they may come to life and come up with some support, along with possibly the State. And if they didn't do it, then, of course, the Board would have the right to drop them from the program.

Mr. **Bassett**. I just wanted to enlarge on that. Presently local communities in fact do subsidize airline service in a small city like Mankato, Worthington, or Fairmont. Obviously we are faced with the same problems the Federal Government is, except that we can't have those big deficits, and our problem would be in finding the resources to add to that kind of a program that we are presently paying.

In the State of Minnesota, I think there are a lot of opportunities to do that in terms of expanding the service area and expanding the tax base that would be subsidizing the local airports. That would take some time, and I think that is the important issue here, is that what we are seeing is a sunsetting of local air service in smaller communities, and that I think is the wrong approach.

Those 6,000 passengers in Minnesota, or in Mankato rather, have not disappeared, and I think what we want is to have some time to find those folks, get them on the airlines and have some service that is attractive. If that causes you to have some kind of financial commitment, I think you will find many of these out-of-the-way cities will do that.

Mr. STANGELAND. You mentioned extending the program for another 10 years to 1998. The CAB believes that decision is premature. If the Congress should make some fundamental changes in this program, do you think it might be better to evaluate the impact of those changes in a few years, before deciding on an extension?

Mr. McCABE. Mr. Chairman, Mr. Stangeland, we are saying 10 more years from now, which would really extend it probably only about 4 years.

Mr. MINETA. I guess, one last question: Could you tell us what experience the commuter carriers in Minnesota have had relative to establishing joint fare agreements with the larger airlines?

Mr. KEINZ. Mr. Chairman and Mr. Stangeland, I think they have been quite successful. I am sure Mesaba has joint-fare interline agreements. They are not publicized, not on record, and you have to know somebody to find out about it or you have to be to the chamber of commerce meeting where it was promoted. When you look in the Official Airline Guide, they are not there.

It does cost money for the commuter to make these agreements, and the CAB has negotiated that subsidy down so low that there is just no room for development of the service.

Mr. MINETA. Again, thank you.

I think you have come with some excellent food for thought for us to chew on, and hopefully we can come up with some answers. Thank you very much.

Mr. Hammerschmidt.

Mr. HAMMERSCHMIDT. I have no further questions, Mr. Chairman, but I do want to thank these distinguished gentlemen for being here this morning and bringing us your testimony.

Mr. KEINZ. Thank you.

Mr. MINETA. Mr. McCabe, it is always good to have you before us. I appreciate the help that you have provided to the subcommittee over a long period of time. Thank you, Mr. Bassett and Mr. Keinz, for also being here to help enlighten the subcommittee.

Mr. McCABE. Thank you, Mr. Chairman, for the honor of appearing before you.

Mr. MINETA. Thank you.

Next I would like to call on a panel of Mr. John Rabenberg, chairman, Montana Essential Air Service Task Force; Mr. Maurice Sandmeyer, vice chairman, Montana Aeronautics Board; and Mr.

Dan F. Nelson, aeronautical planning engineer, Utah Department of Transportation.

The testimony of the three of you has been received, and it will be made a part of the record of the subcommittee. You may go ahead and proceed in your own fashion.

Mr. Rabenberg.

TESTIMONY OF JOHN RABENBERG, CHAIRMAN, MONTANA ESSENTIAL AIR SERVICE TASK FORCE; MAURICE SANDMEYER, VICE CHAIRMAN, MONTANA AERONAUTICS BOARD; AND DAN F. NELSON, AERONAUTICAL PLANNING ENGINEER, UTAH DEPARTMENT OF TRANSPORTATION

Mr. RABENBERG. Mr. Chairman and members of the committee, my name is John Rabenberg. I am from Wolf Point, Mont., and serve as chairman of the Montana Essential Air Service Task Force.

By the way, I can relate very much with Senator Abdnor from South Dakota when he talked about distances originally. I can extend those distances a little more.

This testimony is respectfully submitted before your committee today on behalf of the Montana Essential Air Service Task Force.

Appointed by Gov. Ted Schwinden in 1980, our group is an active coalition of representatives from each of the seven communities located in Montana which are provided with subsidized essential air service pursuant to section 419 of the Deregulation Act.

The task force's principal responsibilities are to closely monitor the region's essential air service and work closely with the designated EAS carrier, the State of Montana, and the Civil Aeronautics Board to insure that both short-term and long-term service needs of the community are met.

Communities represented include Glasgow, Glendive, Havre, Lewiston, Miles City, Sidney, and Wolf Point. Williston, N. Dak., which is also served as a part of the Montana/western North Dakota essential air service network, presented earlier testimony before this committee.

Because, as a group, our communities are exceeded in isolation—time and distance from our regional hubs—only by the Alaskan bush points, we are heavily reliant on scheduled air transportation for basic daily needs.

As most communities have little or no other commercial transportation, we view our essential air service as a lifeline. Our task force is vitally concerned, regarding not only the status of the current subsidy program, but with future essential air service programs and policies as well.

At the outset, we want to convey to the committee that our communities are locked, literally, in a life or death struggle to maintain scheduled air services. These services are absolutely critical to meet our current needs, and they must exist in the future if we are to sustain any degree of regional growth and development.

We are not asking the Federal Government for a perpetual handout. Instead, with the assistance of a modified essential air service program, our goal is to develop our markets to the point where service will be fully self-sustaining.

To date, due to several impeding factors, we have not made sufficient progress in this direction, although very recent trends are encouraging. During the past 2 years, our region has been severely impacted by, one, a seriously recessionary general economy, two, a disruptive air traffic controllers' strike, three, directly competitive services at Williston which diverted substantial support traffic away from our network, and, four, an insufficiently flexible government subsidiary program.

As a result, our communities must have additional time under more favorable circumstances to build a traffic base and achieve self-sufficiency.

The existing essential air service program, with its obvious deficiencies, and continuing speculation about future programs and policy, are not conducive to reaching this goal. We urgently need your assistance in remedying these problems as soon as possible.

Specifically, the Montana Essential Air Service Task Force requests the following: One, that the U.S. Government's commitment to provide fully subsidized essential air service to qualified communities be maintained through 1988; two, that the program be modified to increase the service contract period from 2 years to 4 years; three, that major subsidy deficiencies caused by factors outside the communities' and carrier's control be adjusted promptly without 90-day termination notice requirements; and, four, that free and open access to the designated government regulatory agency be guaranteed at all times to the affected communities and the designated carrier.

At this point, as part of the record, I would like to insert that the Pioneer subject that was brought up here many times is a unique situation. It is a carrier that has been subsidized in other areas, and it is a subsidized carrier in other areas that is doing competition against a subsidized carrier in our area. I wanted to put that in so you people knew that for the record.

I thank you very much for giving me the opportunity to speak to you.

Mr. MINETA. Thank you.

Mr. Sandmeyer.

Mr. SANDMEYER. I am Maurice Sandmeyer, vice chairman of the Montana Aeronautics Board and the board's representative on the Montana Essential Air Service Task Force.

The changes triggered by the Airline Deregulation Act of 1978 have been basically good for Montana. In our medium-sized cities, major carrier frequency has generally increased, fares are lower, and traffic has generally increased. For that we thank you.

As we analyze the maturing of the law's impact on the marketplace. let us focus some attention on our concern for improving the single carrier essential air service program.

Montana urgently requests that Congress act to determine the fate of the essential air service program beyond December 1988, to assure air service continuity, to foster prudent State, community, and business planning, and to facilitate carrier planning.

This decision simply cannot wait. Montana requests that this decision be reached no later than December 1984. At a minimum, we strongly advocate continuation of the existing basic essential air service program for 5 years, or through December 1993.

Within the essential air service subsidy program, Montana strongly questions that aspect of the existing procedure which awards carriers fixed, 2-year service contracts, adjustable only upon filing of a 90-day termination notice.

If the basis for the initial subsidy estimate change during the contract period as a result of factors outside of either the carrier's or the communities' control, such as competitive services, air traffic controllers' strikes, recessions, or major shifts in fares or schedules of connecting airlines, the communities themselves should not be subjected to the trauma of a termination process, and the carrier itself should not be forced to operate losing services for 90 days or longer.

In Montana's opinion, the impending sunset of the Civil Aeronautics Board, along with a lack of clear organizational direction, has been detrimental to the essential air service program. Reductions in staff and loss of competent, experienced staff members have damaged the program during the past 2 years.

Staff decisions now require more time. As a result, processing and payment of subsidy claims are often extended. The overall effectiveness of the program suffers. The network of services currently being provided, particularly within Montana, is far too vital and delicate to suffer these continued disruptions.

Due to these concerns, it is our strong feeling those functions remaining after CAB sunset, if placed in the Department of Transportation, be placed within a newly created autonomous and highly visible agency which will be directly accessible to the constituency they are to serve.

Montana asks your assistance that the program will remain adequately funded, that it will be responsively administered at all times, that it will remain professionally intact, and will maintain its independent decisionmaking authority, particularly during the ongoing transition caused by sunset.

Mr. Chairman, I would solicit your comments and questions now. We were advised at a fairly late date on this. We would like the opportunity if we can't answer some of your questions now, we will see that you get answers to these questions in writing by February 13.

Mr. MINETA. Thank you, Mr. Sandmeyer.

Mr. Nelson.

Mr. NELSON. Mr. Chairman, members of the committee, I appreciate the opportunity to testify here today.

Basically, I am an engineer, and I can sum up my comments, and we support the program, and we hope it would be carried through the end of 1988, as stipulated by Congress, but as my testimony should reflect here today, I represent the Utah Department of Transportation and the Utah Air Travel Commission. I serve as the executive coordinator for the Air Travel Commission.

We would like to go on record in support of the essential air service program as provided for under the Airline Deregulation Act of 1978. We feel it has been a tremendous success for our State.

In addition, we have the following comments regarding the effectiveness of the current program as well as the list of criticisms of those elements that could be modified to enhance the overall program.

There are three essential air service points in Utah, two of which could have not survived under regulation without a subsidy incentive to attract a willing carrier to provide service.

Of the two cities, one is extremely isolated and the community is heavily dependent on service provided by the subsidized carrier for both emergency transportation and access into the national air transportation system at the hub of Salt Lake City.

This past year, a massive landslide in Utah destroyed U.S. Highway 6, the main east-west route across the State, buried the Denver and Rio Grande Railroad main line tracks through Spanish Forks Canyon, and created a 70,000-acre-foot lake, drowning the town of Thistle, and further isolated many of the communities in eastern Utah.

This caused an additional 1½-hour traveltime by automobile to Utah's 419(b) essential air service point, which was already 5 hours by automobile. That same community is now served by a commuter airline under the essential air service program, and flight time is slightly over 1 hour.

The other two essential air service communities in Utah have benefited from the essential air service program, as it has allowed carriers who had been serving markets under a 406 subsidy to leave the market and be replaced with smaller carriers utilizing equipment more suited to the market who could provide more frequency of service at a lower cost to both the traveling public and the Federal Government.

Prime examples in the western region where this has worked very effectively are Vernal, Utah, and Pocatello, Idaho.

Neither Pocatello nor Vernal have received subsidy since they were converted to the 419 subsidy program. This has meant an annual savings to the Federal Government of $833,000 at Vernal and $705,801 at Pocatello.

Similar subsidy reductions have been experienced at Idaho Falls and Rock Springs, Wyo., with the annual subsidy dropping from $1,267,000 and $1,089,190 to zero at the two respective markets.

Other communities that are essential air service points and are currently being served by a small Utah-based carrier without subsidy include Twin Falls, Idaho, and Flagstaff, Ariz. Before the essential air service program, little or no service was available to these communities, but there are now several flights daily.

Subsidized essential air service points which are either in Utah or served by a Utah-based carrier and would probably be nonexistent without the subsidy include Cedar City and Moab, Utah, Elko and Ely, Nev., and Page, Ariz.

The following suggestions are, in our view, modifications that could enhance the essential air service program.

One, reduce the time presently required to get an essential air service recommendation from the Bureau of Domestic Aviation and subsequent final decision by the Civil Aeronautics Board. This would allow many unwilling carriers to leave markets they cannot effectively or economically serve and would allow replacement carriers to fill the voids without long delays that may destroy the viability of the market.

Two, strengthen the CAB part 204 fitness criteria for entrant essential air service carriers into new markets. Carriers now appear to be rubber-stamped with little evaluation of their past safety record or ability to survive in the financial and management world. Also, once the carrier is in operation, the CAB and FAA appear to walk away and pay little attention to ongoing finance and management operations, often resulting in the carrier getting itself into trouble beyond recourse.

Three, where there is now free entry into the markets, we feel there should be firm criteria for evaluation of both potential essential air service carriers and other nonsubsidized carriers. The local FAA jurisdiction should conduct an audit of maintenance and operations and on-site surveillance as well as followup monitoring of carrier performance over an extended period.

Four, another item, for which there does not appear to be an easy solution, is for service to those essential air service markets that require no subsidy, but are so thin that any competitor dilutes the market below profitability. In those cases, both carriers lose money and eventually the city usually loses both carriers.

We feel there should be some means to prevent predatory dilution of these markets by a second carrier that is entering the market to attempt to starve out a competitor and take over the traffic. We feel these marginally economic successful markets should be evaluated for their potential to support two carriers. Competition can be good for the consumer, but only if the market is capable of supporting both competitors.

Five, last but not least, we would like to stress how important the Civil Aeronautics Board's Office of Community Congressional and Consumer Affairs has been to our area.

Their western regional office is located in San Mateo, Calif., and while it is not the same as being located in the center of Utah, it has been very responsive to our needs, especially in dealing with the Civil Aeronautics Board and the Bureau of Domestic Aviation at the administrative level.

We feel it would be very ill-advised if their expertise were lost during the sunset of the CAB when the transfer of functions is made from the CAB to the U.S. Department of Transportation.

The people who have served in this region are knowledgeable of our problems, they are very helpful in finding solutions, and are necessary to the successful management of the essential air service program through October 1988 when the program terminates.

In summary, the essential air service program has been very beneficial to Utah and the intermountain region. We therefore encourage your committee to continue to support the program through its intended termination date of October 1988 as provided for under the act.

Thank you.

Mr. MINETA. Thank you very much, Mr. Nelson.

Mr. Rabenberg, one of your recommendations is that free and open access to a designated Government regulatory agency be guaranteed to all the affected communities and designated carriers. Have you had any problem getting access to CAB?

Mr. RABENBERG. Yes, as far as the funding goes, there has been a delay in funding, because of this access to the CAB for our carrier out there at this time.

Mr. MINETA. What has been the nature of that problem?

Mr. Rabenberg. That I would have to get back to you on in writing, because we are discussing this, and as you know, time was short on getting these facts down, but this is something that was very much of a problem for the carrier.

Mr. Mineta. What has been the history of service to the Montana cities included in the EAS program? How does the service that they have been receiving since deregulation compared to the service prior to deregulation. What has happened to traffic?

Mr. Rabenberg. For the medium-size towns, like we said, like Billings, Great Falls, essentially Billings has increased their traffic. Our traffic now has increased on the EAS service line under the EAS Act, and right now it is coming through very well, so we have been pleased, and it has been very productive.

Mr. Mineta. You also indicated in your testimony that your communities desire to develop higher traffic levels so that service will be self-sufficient. I understand that many of your cities currently enplane fewer than 10 passengers a day.

What do you see as the traffic potential of your cities, and what type of service could be operated on a self-sufficient basis with these kinds of levels of traffic?

Mr. Rabenberg. Of course we are all optimists in Montana, as you might know. We feel that through the industry, the oil industry—and hopefully the agriculture industry will maintain a better level of income, and through this we could increase our boardings in our areas, but these are the things that it would take to do this.

Mr. Mineta. Would that be dependent on the economy continuing to bounce back?

Mr. Rabenberg. Yes.

Mr. Sandmeyer. May I make an addition to this?

Mr. Mineta. Surely.

Mr. Sandmeyer. We have had problems. Sidney, Mont., where I happen to live, is 300 miles from our hub. It doesn't make any difference whether we go to Bismarck or Billings. We were having trouble even with that 300 miles at first, because our fares were a little bit high and our scheduling was not quite as good as it should be, but there would be anywhere between 25 and 45 cars with our county license plates in the Billings airport.

During the last 3 months, we have had an add-on fare or a joint fare arrangement. Our boardings and our traffic people have increased, and we have made a dent in that market. I think if the future of this would continue, we can massage a market and develop people from the driving population to get on the airplane, because it has had a very positive response. We have only had this about 5 months.

Mr. Mineta. How far is it, from Sidney to Billings?

Mr. Sandmeyer. About 275 miles.

Mr. Mineta. Mr. Nelson, your testimony raises as a concern that a second carrier would enter an EAS market, resulting in unprofitable operations by both carriers, and essentially a loss of all service. Are you aware of many cities at which this has occurred, or do you think of this mainly as a potential problem?

Mr. Nelson. We have seen this happen in, for instance, Vernal, where we had an essential air service carrier providing service without subsidy. A second carrier entered the market, and the market was so thin that both carriers were losing money.

Essentially, the second carrier started to detect that and left the market, and since that time the first carrier has maintained service, but it came down to a very fine line whether he would stay in that market.

If the second carrier had stayed in an additional 2 months, I think we would have lost both carriers.

Mr. MINETA. Let me ask if all of you would comment on this. Do you think that it would be desirable to allow CAB and DOT to award additional developmental subsidy to support increased levels of service in the hopes that the improved service would increase traffic and eventually result in the service being provided at lower levels of subsidy?

Would this type of program help your communities, and would you be willing to accept a developmental grant with agreement that subsidy would be ceased, if anticipated levels of traffic failed to develop?

Mr. RABENBERG. Yes; we would accept that, but I think we had better think along the lines—you know we heard much talk here about the communities doing their part, and I believe that this is one thing that communities should be obligated to do, and somehow we should do this, although what you are talking about, I think, that the airlines, being a business that they are, should have the opportunity to do their promotion if the communities don't—so it is a funny situation to be in, and I think that it is a grant that we would really appreciate seeing; that is true.

Mr. MINETA. What about the suggestion of that 20 percent local contribution or match?

Mr. RABENBERG. For the total fund?

Mr. MINETA. Cf local contribution toward that total subsidy?

Mr. RABENBERG. In our area, as you might well know, the population and the tax base is not that great to substantiate that type of a portion of that at this point.

Mr. MINETA. Thank you very much.

Mr. Hammerschmidt.

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Mr. Sandmeyer, in your testimony you advocate continuing the existing EAS program for 5 more years through December 1993. If Congress should decide to make changes in the program, I wonder what you think about the preferability of reevaluating it in a few years before we decide whether to extend it or not.

Mr. SANDMEYER. I think my personal feeling is that the program should be looked at. I do feel that we have maybe a few cities that should not qualify because of restructuring of traffic and so on and so forth, but in order for the State of Montana and us to program, and as a community to program this thing, we would like to have a long-term goal, say.

Maybe it should be reevaluted more than once during this term, but we would like to have some long-term goal, because we have been in the essential air service 3 years now. We have been massaging the market. Our air carrier has probably done as much as it could because they are highly leveraged and they got real thin at a few points, but in the last 3 or 6 months we are starting to see some results of this. It is a long thing.

Mr. **Hammerschmidt**. The chairman mentioned the possibility of some developmental subsidies. If the CAB were permitted the flexibility to temporarily increase up front assistance to selected EAS communities in Montana for instance, do you believe this might be a viable alternative to extending the EAS program beyond 1988?

Mr. **Sandmeyer**. I would like to see if it was a subsidy, to have it over a long term, as I said before, because our market is not responding as fast as we had hoped, but it is coming, and I think there would be some benefit, yes.

Mr. **Hammerschmidt**. Let me ask Mr. Rabenberg this question. I wonder if you would comment on the GAO proposal to allow the CAB to temporarily increase subsidies, coupled with the authority to terminate a point's eligibility, if it will not be able to sustain its own air service.

Mr. **Rabenberg**. I would not be in favor of that myself. I am sure that in the future we are going to need some sort of subsidy regardless, because of the number of population that we have in our area.

Mr. **Hammerschmidt**. Mr. Nelson, you were talking about Vernal, Utah, and those two carriers, that they might have both gone out of business if one hadn't gone out a little earlier. I wonder if you would compare the existing service at Vernal with the service that it received under the older 406 subsidy program.

Mr. **Nelson**. Under the 406 subsidy program, they received a large amount of money, but service was being provided by Frontier Airlines, with Convair 580. The 580 was not suited to that market. It was too large an aircraft for the number of people traveling. They could only provide one frequency a day in and out of there, and when the 406 carrier left and was replaced with the 419 carrier, frequency increased to six flights per day.

The people had a hard time accepting it at first, but when they saw what the carrier was actually doing for them, providing the frequency, they seemed to be much happier with the service. The fares were lower, and I think there has been a very general acceptance of the change in that program.

As I mentioned though, it is a very thin market. There is not much profitability in that market, and they cannot support two carriers. If it stays the way it is now, without subsidy, and providing we do not have another carrier to come in and try and undercut, to take that market, I see no reason for that market not to continue to grow and develop without any need for subsidy.

Mr. **Hammerschmidt**. Let me ask you, Mr. Nelson, a question similar to the one I asked Mr. Rabenberg. You mentioned that the EAS program has been beneficial to the State of Utah. The GAO has suggested that subsidies should be increased in some communities, so that they will have a better chance of sustaining subsidy-free service in the long run. How do you think that would work out? What is your idea about that?

Mr. **Nelson**. Our Governor has indicated that he does not favor a perpetual subsidy in any of the communities in the State of Utah for air service. Two of the communities are served under the 419 program, the normal program—and I don't know exactly the nature of the communities' decision as far as whether they would like to see the subsidy increased at the subsidized point, or a subsidy provided at the nonsubsidized point, but I doubt that they would want to see an increased subsidy and subsequent possible early termination of the program.

At the 419(b) point, it is a situation where the board made a determination to provide a 1-year experimental subsidy to try and develop the market and see if it can fly on its own. At this point, we think we are very close to break even, but we would favor for that one point—the 419(b)—increased subsidy for a interim period, and if it cannot sustain, then to terminate it.

Mr. Hammerschmidt. Thank you very much, gentlemen, for your testimony, your responses, and for your patience as well.

Mr. Mineta. Let me again thank you on behalf of the subcommittee for your help by testifying here. There is no question that your experience at the other end of the legislative pipeline is what is important for us to hear about. So we appreciate your taking time from your own busy schedule to be here to help us out. Thank you very much.

Mr. Rabenberg. Thank you, Mr. Chairman.

[Subsequent to the hearing, the following was received from the Honorable John M. Shontz, Montana House of Representatives:]

The Big Sky Country

MONTANA HOUSE OF REPRESENTATIVES

Capitol Station
Helena, Montana 59620

Route 2, Box 2400
Sidney, Montana 59270

John M. Shontz
District 53

Committees
Chairman: Appropriations
Subcommittee on Human Services
Vice-Chairman: Select Committee
on Water Marketing
Member: Rules
Highways & Transportation

February 17, 1984

The Honorable Norman Y. Mineta, Chairman
Aviation Subcommittee
Committee on Public Works & Transportation
2165 Rayburn HOB
Washington D.C. 20515

Dear Chairman Mineta,

After his testimony before your committee and his visit with you earlier in February, Maurice Sandmeyer, Vice-chairman of Montana's Aeronautics Commission asked that my office provide you with addition detail.

Of particular interest are the remarks by Oliver W. Krueger of the General Accounting Office concerning the Essential Air Service Program.

All the cities reviewed by the GAO suffered a decline in commercial service and usage under the current program. We invite the GAO to present to you the program's impact in Sidney Montana where the program is beginning to work as intended and the usage of the service has dramatically increased since the change in the subsidy program.

At an informational hearing before CAB staff in 1979, I stressed our interest in having air service which would eventually be non subsidized and provided by a profit making airline. Getting there (and we are not there yet) is proving difficult but obtainable.

In 1978 Frontier Airlines had about 2280 passenger "O&D"s at Sidney and were receiving a subsidy beyond reason.

The Big Sky Country

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page two

In 1982 Big Sky Airlines had 4,286 passenger "O&D"s at Sidney and the subsidy level was, I believe, about one half that of the 1978 level.

Big Sky is projecting 5,54P passenger "O&D"s for Sidney in 1984. January alone saw a 51% INCREASE in boardings over 1983 at Sidney.

Ticket prices are cheaper today than in 1978 and, as I mentioned, the subsidy is much less.

The community has helped. We constructed a new airport terminal in 1982 using only local tax dollars.

The program will work with a little support and fine tuning. It is beginning to here and our common goal (profitable carrier service) can be reached if the program is not cut short or hampered administratively. I understand both actions are currently being considered by the Administration and the CAB.

We invite your perusal of our ongoing success. It is a better reflection of the intended direction of this entire program than the failures noted by the GAO report.

If I can provide you with further information, please ask.

Sincerely

Mr. MINETA. This then concludes the hearings by this subcommittee on the subject of essential air service. The subcommittee stands adjourned.

[Whereupon, at 1:05 p.m., the subcommittee was adjourned.]

ADDITIONS TO THE RECORD

TESTIMONY

OF

AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

ON

ESSENTIAL AIR SERVICE

BEFORE THE

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 13, 1984

The American Association of Airport Executives is a non-profit membership organization which represents 900 public officials responsible for the administration of over 600 airports nation-wide. We appreciate this opportunity to express our views before the Aviation Subcommittee.

We believe the Congress is to be applauded for its efforts in 1978 to assure that the smaller and more isolated communities in our air transportation system were not ignored during the drive to deregulate the larger, market-oriented system. Indeed everything the Congress did in the Airline Deregulation Act of 1978, and said in Conference Report 95-1779, aimed to improve service to small communities. Unfortunately the administration of section 419 and the appropriation requests which have followed the authorizing language have not lived up to the

Congressional intent stated back in 1978.

In 1978 Congress took a number of steps to improve service to small communities: 1) Section 419 subsidy was based on community needs instead of an airline's needs as was true under the older Section 406 subsidy; 2) Conferees stated and the language of Section 419 went out of its way to say that this new subsidy program was not to be a "low-bid" system. Rather it was repeatedly noted during the legislative debate that service levels and quality could be greatly improved for the same amount of subsidy funding under the new program; 3) Congress guaranteed service to all communities receiving service in 1978 for ten years to alleviate the fears of exit by airlines under a deregulate system; 4) The "bumping" provisions of Section 419 all emphasized the issues of service improvements and community views as keys to decisions on carrier selection. In sum, ~~the~~ Congress clearly made a strong effort to improve the Federal air service subsidy program for the benefit of small communities.

However, the application of Section 419 has not lived up to its promise in our view, primarily because of the Civil Aeronautics Board's refusal to use the program as market-building plan, and because of an approximate 50% cut in appropriations for air service subsidy. The Board has failed, we believe, to carry out the Congressional intent of Section 419 and has, in practice, made it a low-bid subsidy system with only a few exceptions. The Board majority clearly views the program as a service-maintenance plan rather than as a market building plan. Further, Board and Administration requests have encouraged the funding cuts which have clearly gone far beyond this modest program's fair share of across-the-board Federal budget reductions.

We certainly realize the difficulty the Congress has in controlling the administration of its well-conceived programs, but the bottom line for the EAS program is that it has no institutional champion within the Federal government for aggressive, forward-looking application.

With the difficult task before the Committee of improving the EAS program in mind, AAAE offers the following general suggestions for your consideration.

1. Section 419 should be amended to place stronger emphasis on flexible administration of the program to meet the needs of individual communities. Ideas such as "front-loading" the subsidy program for some communities should be permitted in appropriate circumstances.

2. Community views need added emphasis in the statute for both EAS determinations and carrier selection cases. The burden of proof should be on the CAB or is successor to find against the local community position on carrier selection.

3. Congress should significantly increase funding for Section 419 subsidy. Section 419 costs should accept a fair portion of budget restraint from the peak levels of the late 1970's, however, a large portion of the extreme cuts this program has endured should be replaced. This clearly is the fastest and most important method of solving the major EAS problems.

4. Once the EAS program is transferred to DOT it should receive similar "political insulation" to that being discussed for international route awards. The totally discretionary nature of the EAS program makes it a potential target for political decision-making in the future.

5. Congress should study the desirability of changing rather than eliminating Section 419 after 1988. The 10 year limit of this program was originally intended by the Congress as a guaranteed period against exit. However, time seems to have changed some peoples' impression of the purpose of this provision into a "sunset" of the entire EAS program, without regard to isolation or other valid reasons for continuing some air service subsidy for some communities. AAAE believes that Congress should begin to examine this issue and not be persuaded by the mistaken impression of some individuals who claim the 10 year date was originally intended as a complete sunset provision.

Attached to our testimony is a letter from R.C. Smith of Modesto, CA, which is representative of the comments AAAE has received over the years about the EAS program.

Thank you for the opportunity to present these views, and we would be pleased to answer any questions the Committee may have.

CITY of MODESTO

Department of Utility Services: Administration Building, 700 Tioga Drive, Modesto, CA 95354
Airport Division (209) 577-5318

February 2, 1984

Mr. Chip Barclay, Executive Vice President
American Association of Airport Executives
2301 "M" Street, N. W.
Washington, D. C. 20037

RE: AAAE Position Options on CAB Sunset Legislation

Dear Chip:

Pursuant to your suggestion at the recent meeting of the AAAE Board of Directors in Greensboro, N. C., the following comments are forwarded for your consideration for presentation to Congress regarding the Essential Air Service Program:

Paramount concern to many Airport Managers is the extension of the EAS program beyond 1988. There are at least five communities in California (Stockton, Modesto, Merced, Visalia, and Bakersfield) that have experienced a number of airline failures which have decimated the markets and it could take considerably longer than the five remaining years of the program to restore the confidence of the air traveler. In the case of Modesto, we know from travel agent surveys conducted by the Modesto Chamber of Commerce that over 100,000 airline tickets are purchased in this community annually. We have further determined that less than 25 percent of those air travelers are using the Modesto Airport. This means that over 75,000 people are driving to the bay area to obtain air service.

Specific requirements should be placed on EAS funding by the CAB/DOT to require essential air service carriers to spend a portion of the funds for marketing the air service they are being paid to provide and develop. It has been our experience here in California that when a single EAS carrier was designated in a market, little or no funds were spent on marketing. Being the only carrier, there was little incentive to spend funds for marketing. At least one carrier admitted to me that they could have cared less about market development as long as they were being paid to fly empty airplanes, why should they spend the money.

Mr. Chip Barclay, Executive Vice President
American Association of Airport Executives

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Another concern of the Airport Managers is the reentry by the large carriers back into markets abandoned as a result of deregulation. This is, in many cases, in direct competition with smaller carriers that are providing essential air service.

There is little question to the purpose of the large carriers and that is to force them out of the market that will eventually cause the smaller carriers out of business. Some kind of protection should be considered so that the millions of dollars of EAS funds expended to date that are keeping many of the smaller carriers going will not go to waste.

I hope these comments can be added to your presentation during the forthcoming congressional hearings. If you have any questions regarding the above, please do not hesitate to call me.

Yours very truly,

Richard C. Smith

Richard C. Smith, AAE
Airport Manager

RCS:js

COMMONWEALTH PORTS AUTHORITY
Main Office: SAIPAN INTERNATIONAL AIRPORT
P. O. BOX 1055 • SAIPAN • CM 96950

[illegible]
1984 MAR -6 [illegible]
NORMAN Y. MINETA, M.C.

March 1, 1984

Hon. Norman Mineta, Chairman
Committee on Transportation
House of Representatives
United States Congress
Washington, D.C.

Dear Mr. Chairman:

In late 1982, Island Aviation, Inc., the only airline linking the Islands of Tinian and Rota with the population centers of Guam and Saipan, filed for bankruptcy and ceased service to these islands. Given the fact that we are geographically a chain of islands, with no land links to the rest of the world, and with extremely unreliable shipping services, you can readily surmise our dependence upon reliable air transportation services, for every aspect of our lives. Accordingly, the demise of Island Aviation, Inc., was particularly critical to us.

Fortunately, the staff of the United States Civil Aeronautics Board rapidly stepped into breach. They quickly arranged for interim subsidized service by Air Micronesia, Inc., until an essential air service determination and replacement carrier selection proceeding could be completed. Their prompt action assured that the interruption to our vital air services was kept to a minimum. Today, at least partially as a result of the efforts of the CAB staff involved, inter-island service in the Commonwealth is provided by a healthy, viable, and reliable carrier.

Efficient and devoted public service, such as was provided to us by the CAB staff involved in the proceeding, should not go unnoticed. Accordingly, we would like to express to you our sincere appreciation for the efforts of Mr. John Smith, and all of the staff of the CAB Western Regional Office, for their efforts and their cooperation in the matter. Their work sets an example for all public servants everywhere.

Very truly yours,

COMMONWEALTH PORTS AUTHORITY

J.M. GUERRERO
Chairman, Board of Directors

cc: Hon. Dan McKinnon, Chairman
Civil Aeronautics Board

5

SAIPAN INTERNATIONAL AIRPORT/SEAPORT
P.O. Box 1055, Saipan, CM 96950

ROTA INTERNATIONAL AIRPORT/SEAPORT
P.O. Box 561, Rota, CM 96951

WEST TINIAN AIRPORT/SEAPORT
San Jose Village, Tinian, CM 96950

THOMAS H. GALLAGHER, D.D.S.

531 SIXTH STREET • ELKO, NEVADA 89801 • (702) 738-7911

August 11, 1983

Congressman Norman Mineta,
Chairman Subcommittee on Aviation of Public Works & Transportation Committee
House of Representatives, Rayburn Building, Room 2350
Washington, D.C. 20515

Dear Congressman Mineta:

It is my understanding that you are going to conduct Oversight Hearings on the effects of Airline Deregulation in Modesto on August 16th.

If you will permit me I would like to enter a few comments into the record.

Elko, Nevada has been relatively fortunate with Deregulation up to this time but I am very apprehensive about what will happen when the subsidy is discontinued. Skywest Airlines is flying this route presently (Reno-Elko-Ely-Salt Lake City) with Metroliner aircraft. Prior to Deregulation we had a subsidized flight using United Air Lines 737 aircraft. These were comfortable planes, especially compared to the noisy and cramped Metroliners. The Metroliner is uncomfortable to the point that many people refuse to ride in them.

The above has resulted in a situation where we are not generating boardings that will sustain the airline when the subsidy is taken off. This is in spite of an increase in population and business activity in our area. When the subsidy is removed we may see the end to any airline service to our community. The effect then of Deregulation to our city will be a catastrophe.

Looking at Deregulation generally, it is surely a good concept and I am sure was instituted with all good intentions by the Congress. The result, however, has been a disaster. I think this concept would be fine if airline travel was in it's infancy but it is not. The airline industry "grew up" with regulation; the airlines made huge investments predicated on their experience prior to Deregulation and we have seen what has happened: Braniff and many others may be followed by Pan American soon. What would the economic health of the airlines be if we did not have deregulation? We know what it is now and it can not be attributed to the recession alone. Perhaps we were better off before deregulation.

It is difficult enough for businesses to remain healthy in these times without the government setting the stage for their ruin. I think the congress should re-examine this program with the thought of perhaps being able to undo some of the damage that has been done to the industry. Chrysler was salvaged and perhaps the airlines can be.

THOMAS H. GALLAGHER, D.D.S.
531 SIXTH STREET • ELKO, NEVADA 89801 • (702) 738-7911

One further comment concerns the termination or dissolution of the Civil Aeronautics Board. Someone needs to remain in a position of authority over the airline industry to provide liason between the industry and the government. The phase-out of the C.A.B. is premature and most likely ill advised. The loss of the C.A.B. will necessitate the creation of another board - why do it? Keep the present one.

Thank you for allowing me to submit these comments.

Sincerely,

T. H. Gallagher, DDS

Thomas H. Gallagher, D.D.S.

THG:aef

cc: Congressman Barbara Vucanovich
Senator Chic Hect
Senator Paul Laxalt

AIRLINE DEREGULATION AND THE ESSENTIAL AIR SERVICE PROGRAM

Comments Addressed to
U.S. House of Representatives
Aviation Subcommittee
Committee for Public Works and Transportation

Presented Jointly by Oregon Department of Transportation
and Oregon Public Utility Commissioner

Salem, Oregon
February 17, 1984

1. Introduction

This testimony is presented by Paul E. Burket, Administrator of the Aeronautics Division of the Oregon Department of Transportation (ODOT), and David J. Astle, Assistant Commissioner, Rail/Air Program of the Public Utility Commissioner of Oregon (OPUC). Our agencies work cooperatively in an effort to achieve the state's air service goals: an economically sustainable intrastate air service system serving and responsive to the needs of our major communities.

We want to thank you for this opportunity to express our views in writing. Through this testimony we intend to present background on the Oregon experience which supports the steps we are recommending Congress take. We are recommending that further Congressional directions are necessary to insure essential air service (EAS) to the smaller communities.

2. Background

Oregon, like many other western states, is somewhat sparsely populated in a fairly large percentage of its total area of 96,981 square miles. Except for the Willamette Valley (running north-south between Portland and Eugene), most population centers are made up of less than 25,000 people. While all communities are accessible by roads, the long travel distances and, in many cases, mountainous terrain, frequently make trips to their communities of interest long and arduous. An extremely important factor is timely accessibility to both routine and emergency health care and medical assistance.

For these reasons, we have had a long and serious interest and involvement with the concept of connecting our communities with a flexible, economical system of scheduled air service using smaller aircraft (8-19 passenger) to provide them with access to the national air transportation system, as well as for medical, recreational, business and government administration purposes.

The state supported an intrastate air service route protection program when the free market failed to support commuter air service. Legislation was passed in 1973 granting OPUC jurisdictional authority to regulate intrastate air carrier rates and routes.

3. Participation in Air Service Studies

During 1970-71, Oregon participated in the first study effort of its kind to systematically examine the problems of scheduled air service to small communities. The study was a joint effort of twelve western states. Since then Oregon has participated in other joint air service projects.

Oregon has its own aviation system plan. Analyses of community potential for air service are made and published for use of potential commuter operators. The current study, Volume VII, Commuter Air Service Needs Study, 1983, is attached. Studies of this magnitude emphasize the concerns Oregon has for community isolation.

4. Astoria Marketing Experiment

In 1974, the Civil Aeronautics Board granted a temporary suspension of service to Hughes Airwest in the Astoria to Portland market. Primary justifications for suspension were low enplanement activity and high per-passenger subsidy costs. Airwest was replaced by Harbor Airlines, a Washington commuter carrier. This carrier was encountering the same problem of low enplanements even though our Commuter Service Study had shown adequate demand in this market. The Public Utility Commissioner and Aeronautics Division took the lead in a marketing experiment in an attempt to develop the market on this route. With strong assistance and support from the Governor and several other state agencies, a $10,000 grant was obtained from the Pacific Northwest Regional Commission through the Governor's Office. These funds were used to finance a marketing contract between the Port of Astoria and an Oregon advertising and marketing firm. Saturation radio and newspaper marketing efforts over a three-month period produced dramatic results. By the end of that period, enplanements had increased by 50 percent. Unfortunately, at that time, the carrier, for various reasons, decided to discontinue the route and the Astoria market was again without service.

It should be noted here that in 1980, Cascade began providing subsidized "Essential Air Service" under the new act. However, EAS at Astoria was eventually determined to be zero and service terminated September 23, 1982.

We have included this section to reinforce our arguments of the importance of initial intensive marketing for commuters.

5. Past Failures and Associated Problems

An informal survey of available information has shown a dramatic history of commuter failures in Oregon. During a period of approximately eight years (1969 to 1977) at least eight commuters initiated varying degrees of service only to fall by the wayside after relatively short periods of operation. Reasons for failure were many and varied but the most common were lack of preliminary market demand studies, inadequate financial backing to sustain a period of market build-up, lack of good business management and failure to recognize the need for aggressive marketing activity to develop interest and educate the traveling public to the existence and nature of the service available.

In several of the cases reviewed, the operators failed to coordinate with local officials and, in most cases, service was terminated with little or no advance notice. This was one of the major reasons for enactment of state legislation (SB-240) in 1973 to provide for regulation of intrastate air commerce by the Public Utility Commissioner.

6. Local Air Service and Regulation in Oregon (1974-78)

In 1973, the Oregon Legislature passed SB-240 which established a program of state regulation of intrastate air carriers of passengers and freight. The purpose of this program is set forth in ORS 773.020:

> . . . to provide regulation of air commerce in order that an orderly, efficient, economical, and healthy network of air transportation may be established to the benefit of the people of this state.

The cornerstone of this regulatory program was route protection by regulation of carrier entry into intrastate air travel markets. It was felt that the ability to protect a carrier in a given market would give entrepreneurs an incentive to spend the necessary capital to develop air service in Oregon, especially in markets which were not receiving any service.

When SB-240 was passed, Oregon had no commuter airline service per se. Intrastate air service was being provided solely (and in some cases on a low frequency basis) by CAB-certificated carriers at Salem, Eugene, Medford, Pendleton, North Bend, Astoria, Redmond, Klamath Falls, and Portland. The previous three years had witnessed termination of regional carrier service at Corvallis, Baker, Ontario, and Roseburg. Also, in late 1973, Hughes Airwest was seeking to pull out of Astoria.

Within a very short time after the state regulatory program was in place, applications were received to provide replacement service for Hughes in the Astoria-Portland market. A certificate for this service was awarded to Harbor Airlines, one of the three applicants. This was followed shortly by an award to Columbia Airline for service in the Baker/La Grande-Portland/Salem market, and later the Redmond-Portland market. A third carrier, Valley Commuter, received a certificate for service in the Eugene-Portland and later the Corvallis-Portland market.

Ultimately, none of these operations was successful. Columbia provided good service for about a year, then encountered an increasingly difficult financial situation, finally ceasing operations in early 1977.

Discouraged by these failures, the PUC adopted a statement of policy in late 1976--letting prospective applicants know that applicants willing to develop air freight business along with passenger business would be favored in the future. At that time, it was felt that it was essential to develop a sound economic freight base to help support passenger business month-in and month-out.

At about this time, Executive Flight Service of Portland obtained a contract from a major statewide bank to provide courier service. This contract took Executive into about 20 to 25 Oregon communities daily. Executive sought authority from PUC to provide passenger service in conjunction with these courier flights. A PUC certificate was awarded to Executive in early 1977 and operations commenced under the name of "Air Oregon." This firm was later merged into Horizon Airlines.

Even though the needs of the bank dictated the early schedules of Air Oregon, many communities which had not received scheduled air service for many years, or in some cases ever, began receiving such service. These included Lakeview, Burns, John Day, and Brookings, Oregon. Also, these contracts reinstituted service to Baker and La Grande and to several other points which previously had or were still receiving intrastate air service.

Executive's operation was not sufficiently capitalized to support a full passenger service operation, and the owners sought additional financing. This was provided in late 1978 by a group of prominent Oregon businessmen, led by Glenn Jackson. This group of investors provided substantial capital, allowing the acquisition of 19-passenger aircraft. This, along with a more professional management team, put Air Oregon in a position to take advantage of the opportunity to provide good service in many Oregon air travel markets.

At the time the Airline Deregulation Act of 1978 was enacted, Air Oregon was providing scheduled passenger service to 22 Oregon communities, most in conjunction with bank courier service but also some passenger-only flights. A map is attached of July 1978 commuter service but not including the bank courier flights.

7. State Involvement in the Essential Air Service Program

a. Input into Development of CAB Guidelines and Procedures

PUC was the lead agency in developing Oregon's response to the Essential Air Service (EAS) program. This was a joint effort with the Aeronautics Division of the Oregon Department of Transportation. Prior to the first meeting held by the Civil Aeronautics Board (in Seattle on January 15, 1979) to obtain local input on the development of guidelines and procedures for the EAS program, PUC organized and held meetings of what we called the "Oregon EAS Committee," comprised of representatives of eligible Section 419(a) and 419(b) communities. Representatives of ten Oregon communities attended our first Oregon EAS committee meeting (Portland, Roseburg, Salem, Medford, Redmond, Pendleton, North Bend, Klamath Falls, Eugene, and Astoria). In addition, written input was received from Baker and Corvallis.

From this meeting, we developed 11 pages of comments which were submitted to the Board along with oral testimony at the January 15 meeting in Seattle. The Oregon contingent at that meeting included the Public Utility Commissioner, Charles Davis; David Astle, OPUC staff; Paul Burket, of the Aeronautics Division, and two members of his staff; and representatives from the cities of Portland, Salem, Medford, Redmond, North Bend, Eugene, and Astoria. The entire contingent participated orally in this meeting.

Subsequent to publication of proposed CAB guidelines and procedures for the EAS program, we convened a second meeting of the Oregon EAS committee on June 8, 1979, in Portland. Representatives of seven Oregon communities attended this meeting, along with Paul Burket, John Smith of CAB, three representatives of Air Oregon, Laila Cully of the Oregon Department of Economic Development, the new Public Utility Commissioner, John Lobdell, plus Dave Astle and Fred Stewart of his staff. The Oregon PUC and Aeronautics Division submitted a joint statement on the guideline and procedure proposal. We were especially critical of the proposed 60-seat maximum service guarantee and the proposed single-hub service guarantee. We emphasized the need for development of a local service system which would have a realistic chance of becoming economically viable within a reasonable period of time. This meant relatively large "up-front" subsidy and development of a linear route system for most of our air travel markets. That is, designation of at least two hubs for most eligible points, rather than just one. Copies of our statement were furnished to each member of the Oregon Congressional Delegation. We appreciated the Congressional support we received.

At this meeting, we also discussed completion of the CAB questionnaires to be completed by eligible communities and to be used by CAB in the final EAS determination process. Again, John Smith and other staff members of the CAB were very helpful in providing advice on how to complete the questionnaires.

b. Input into Initial Determinations

(1) Interim Determinations

PUC and Aeronautics filed joint statements basically supporting individual community desires, setting forth the state's position in the interim EAS determinations which were made for Astoria, Medford, and North Bend.

(2) Final Determinations

We provided assistance and advice to eligible communities in completing the CAB questionnaires on which the final determinations were partially based. We also submitted a joint PUC/Aeronautics statement recommending specific determinations for each eligible point, again basically supporting individual community desires.

(3) Involvement in the EAS Appeals Process

On March 4, 1980, we filed a joint PUC/Aeronautics statement appealing the Board's initial determinations for various Oregon points. This statement included comments on general areas where we felt there were shortcomings in the CAB's initial determinations and analysis, especially long-term economic and market considerations and what we considered excessive reliance on statistically unreliable data. We also included specific objections to individual EAS determinations at North Bend/Coos Bay, Bend/Redmond, Salem, and Pendleton. Fred Stewart, of our staff, developed much of the appeal material, and he and Paul Burket made oral presentations at the individual appeal hearings held by the CAB in Pendleton, Bend, Salem, and North Bend.

(4) Involvement in 419(b) Proceedings

Section 419(b), an optional program to provide air service to communities which lost certificated service more than ten years prior to the Airline Deregulation Act of 1978 never was implemented in Oregon. Three communities were eligible for consideration. Ontario is 60 miles from Boise, Idaho. Air service at Boise was considered adequate for Ontario's needs. At Baker and Roseburg, the communities sought an affirmative EAS determination which we supported. Both communities lost appeals for air service guarantees. Service provided without subsidy by Air Oregon at Roseburg, Baker, and La Grande ceased in 1980.

8. Current Status of Air Service in Oregon

Four maps are attached depicting major carrier (jet) intrastate air service now (1) and in July 1978 (2). Also maps are included of the commuter carrier intrastate service now (3) and passenger commuter service in July 1978 (4).

Since deregulation, Oregon intrastate jet aircraft service has been discontinued in the following markets:

Medford-Salem-Portland
  (and Medford-Portland single-plane service)
North Bend/Coos Bay-Portland
Klamath Falls-Bend/Redmond-Portland
Pendleton-Portland

Since deregulation, commuter airline service has been discontinued at the following Oregon points (not including points which had passenger service only in connection with bank courier flights):

Baker, La Grande, Roseburg, Corvallis, Sunriver, Newport*, and Astoria.

*Service at Newport was initiated after deregulation.

Significant improvements in commuter airline service have been recorded in the following intra-Oregon markets:

Klamath Falls-Medford-Eugene-Portland
North Bend-Eugene-Portland
Pendleton-Portland

Jet service is presently provided in the following Oregon intrastate markets:

Medford-Eugene
Eugene-Portland

The route: Klamath Falls-Bend/Redmond-Portland was recently lost by the demise of Pacific Express. This service was being provided by Pacific Express which had served as a substitute carrier for Republic which had served under the 406 program. A commuter replacement is expected shortly.

Commuter airline service between Portland and Medford, Klamath Falls, North Bend, Salem, Eugene, Bend/Redmond, and Pendleton is excellent at the present time in terms of service frequency. In these markets, it is unlikely Oregon has ever experienced more frequent air service. However, it should be noted that fares have risen at a rapid rate over the same period (examples are shown below), although this certainly cannot be attributed solely to a lack of regulation. (Oregon PUC did not, as a matter of policy, regulate or prescribe commuter airline intrastate rates.)

TABLE

Fare Comparisons: 10/24/78 to 1/1/84

Commuter Airline Market	Fares (including tax)* 10/24/78	1/1/84	Percent Increase
Portland-Medford	$48	$79	64.6
Portland-North Bend	49	86	75.5
Portland-Pendleton	42	75	78.6
Portland-Bend/Redmond	39	75	92.3

*It should be noted that the carrier also offers special discount fares under specified conditions.

9. Present Day Problems

A few major problems continue to affect the ability of a commuter carrier to achieve success. Obviously, most of these have been overcome by a large number of operators throughout the nation, but their existence does make it increasingly difficult to show a reasonable profit in spite of the accelerated demand and opportunities provided by the Airline Deregulation Act (ADA). Some of the most significant problems we can readily identify are:

a. Nonavailability of aircraft developed specifically for the commuter market. These aircraft should be pressurized and designed to handle light density routes profitably.

b. Extremely high cost of equipment financing;

c. High operating costs due to escalating fuel costs as well as general inflation; and

d. The failure of the CAB under the EAS guarantees to recognize the importance of selecting carrier proposals which maximize the chance of attaining a self-sustaining commuter linear route system. The low-bid near-hub policy often does not provide a service which adequately responds to the real air service needs of the eligible communities. For example, under Salem's guarantee, service is provided only to one nearby hub. The community does not need air service to Portland. Direct service to Seattle, for instance, would be much more useful.

As a result of the above, there is a lack of regional service. Smaller communities are increasingly encountering difficulty in getting and retaining air service as even the commuters are now "picking and choosing" the more lucrative subsidized routes. There are not enough willing carriers to cover the unsubsidized markets.

We applaud the CAB for its one year test at Pendleton of the eastern hub of Boise, Idaho, and its recent refusal to approve a bumping application during this test period. However, in most cases, EAS points have been treated in isolation, often without regard for the need to develop linear systems which are responsive to real air travel needs and which have a reasonable chance of long term financial viability.

Today, eight Oregon counties receive commuter airline service, four of these without subsidy (Portland, Eugene, Medford, and Redmond).

Until recently, Redmond and Klamath Falls received service as a continuation of service under Section 406 subsidies which terminated on September 3, 1982. Republic provided service at Klamath Falls through Pacific Express which on February 2 filed for bankruptcy under Chapter 11. Sections 406 and subsequent 419 subsidies have benefited these communities. However, we feel these subsidies have been counter to the aims of the Section 419 program to provide more frequent service in smaller aircraft at lower costs. They certainly have not contributed to a self-sustaining commuter system.

As you can see on the attached maps, all jet service has been abandoned to central and eastern Oregon points since the ADA. Only Portland-Boise service remains, which is useful only to the Ontario area. Klamath Falls, Redmond/Bend, Pendleton, and Pasco, Washington, have lost jet aircraft service since the ADA. Klamath Falls and Bend/Redmond are separated from Oregon's major population centers in the Willamette Valley by mountain ranges. Pendleton and Pasco are located over 200 miles from Portland, where "black" ice on the Columbia River highway can be more treacherous than snow in the mountains. The local carriers have abandoned the 419(b) communities (Ontario, Baker, and Roseburg) and are serving the others, with the exception of Medford, Eugene, and Redmond, with 419(a) subsidies. It should be noted that Klamath Falls may have subsidy free commuter service under the EAS program shortly because of Pacific Express's demise. Klamath Falls and Redmond/Bend have lost direct access to San Francisco.

West of the Cascades, North Bend/Coos Bay and Salem have lost jet service and their direct southbound access to San Francisco. Medford has lost its direct jet access to Portland. Horizon is filling these voids partially through service to the Portland and Eugene hubs. Astoria on Oregon's northwest coast is without air service.

We must conclude, without Section 419 subsidies, Salem and North Bend will lose all or most essential air service. We see the ADA transition period as a probable failure without further legislative directives.

10. Summary and Conclusions

Three major factors, aside from deregulation itself, have occurred in the period between enactment of the ADA and the present which make it difficult for us to make a meaningful assessment of the impact of deregulation alone on air service in Oregon. These factors are:

a. Air Oregon's (now merged into Horizon Airlines) ability to obtain a high level of financial backing prior to passage of the ADA which enabled that carrier to take advantage of the service deletions by certificated carriers which followed enactment of the ADA;

b. The continuation of jet service under subsidies to the carriers serving Bend/Redmond and Klamath Falls, Oregon, which has detered market penetration by smaller aircraft service.

c. The relatively severe economic recession of the past several years.

On the positive side, deregulation has opened our most lucrative intrastate markets to commuter airline service development by permitting easier withdrawal of trunk and regional airline service in these markets. This resulted in loss of service by large aircraft in many of these markets and in some cases replacement of this service with commuter carriers using smaller aircraft but with increased frequency and better schedules.

On the negative side, development of a statewide commuter airline network may have been made more difficult as there is little if any incentive to serve the marginal intrastate markets. In addition, inducements are no longer possible through state-provided route protection in the more lucrative markets (that is, a lack of potential for cross subsidy, for better or worse).

We are not overly concerned about the high commuter airline fares because we believe that reliance on the free market system is probably the best check against unreasonably high revenues. Although fares at the present time appear quite high, it is unlikely the carriers have realized unreasonably high profits during this period. If unreasonable profits are realized at some time in the future, we can expect competition from other carriers to drive rates down to more reasonable levels.

We are concerned about the economic viability of the intrastate air service system in Oregon with decontrol over joint rates. Short-haul service obviously involves higher fixed costs than long-haul service because of higher relative terminal expenses, if nothing else. It is questionable whether or not commuter airlines will have sufficient bargaining strength to command the divisions of fare revenue necessary to maintain profitable operations, if the joint fare function is not regulated. Thus, curtailment and possible abandonment of service in many local markets might result in the future. Our primary concerns at the present time are the potentially damaging terminations of 419 subsidies and nonmandatory joint fares.

We believe that Congress, in establishing the EAS safety net program to provide a workable air service transition period for small and medium-sized communities, took a positive step in the right direction. We do have concerns, however, about implementation of the program, specifically the low bid, nearby hub approach taken by CAB at many points and the tendency to review and downgrade guarantees on the basis of short-term economic downtrends.

We do not want to indicate we are completely displeased with CAB's implementation of the EAS program. The Board has listened and responded to many of our concerns. The Board's Office of Congressional, Community, and Consumer Affairs personnel have been very helpful in assisting state and local governments through the EAS process. Guarantees at Medford, Pendleton, Klamath Falls, and Bend/Redmond are reasonably reflective of most of the real air service needs of those communities. However, EAS reviews are underway at Pendleton and Klamath Falls at the present time, largely generated by the current economic recession.

We are very disappointed that Baker was not successful in its effort to receive a Section 419(b) guarantee. We believe that Baker and La Grande, both located in the eastern section of the state east of the Blue Mountains, merit a tandem service which could be self-sustaining in the long run. However, lack of flexibility in the EAS program apparently does not allow for communities to be considered in tandem when only one qualifies under the 419(b) program.

We recommend that problems with the current EAS program be addressed by Congress in the following ways:

a. Examination of a number of additional communities to determine their eligibility for guaranteed essential air service and extend Section 419(a) and (b) subsidies for an additional five years. Resources should be allocated to service on route systems which have best potential for becoming self-sustaining after subsidies expire. We believe that linear route systems will meet this criterion in most cases.

b. Establishment of a method of continuing a system of mandatory, or at least controlled, joint fares. Without joint fares, many air commuter operators are unable to survive;

c. Possible modification of the federal preemption clause to allow states at least a minimum amount of regulatory authority to protect intrastate routes and services.

d. Establishment of some method of preventing "discriminatory" fares in smaller markets. It appears that one effect of the ADA has been to cause airlines to allocate an inordinate proportion of their system costs to the smaller markets.

e. Retention of the Office of Congressional, Community, and Consumer Affairs as a whole unit for purposes of overseeing the EAS development to its conclusion. Its field experience is invaluable and must not be lost if small community air service is to continue.

The ADA was enacted for the purpose of saving the certificated air carrier industry from excessive, burdensome, and unnecessary regulation. Although some protection was afforded the small communities under the ADA, the environment required for a healthy regional system has been and is being ignored. The Civil Aeronautics Board appears to have denied local pleas that have been voiced since the beginning of the ADA implementation concerning the importance of the development of a self-sustaining regional air carrier system.

We ask that federal emphasis now be placed on the viability of regional carriers providing usable service on linear routes or that Congress minimally pass governmental responsibility back to the states for some degree of route protection.

Paul E. Burket	David J Astle
PAUL E. BURKET	DAVID J. ASTLE
ADMINISTRATOR	ASSISTANT COMMISSIONER
Oregon Aeronautics Division	Public Utility Commissioner

The attachment, Oregon Aviation System Plan, Volume VII, "Commuter Air Service Needs Study", Oregon Department of Transportation, Aeronautics Division, has been retained in the Subcommittee Files.

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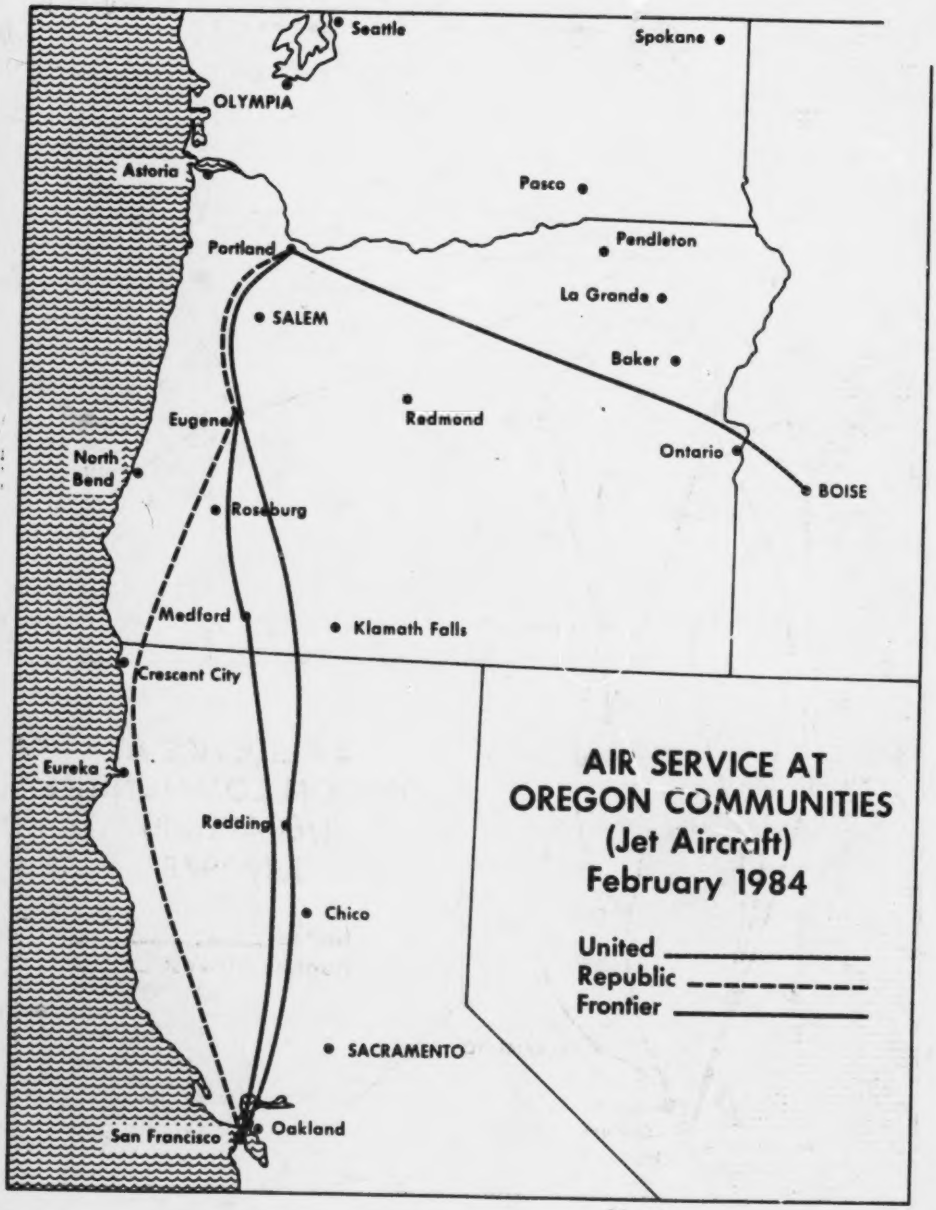
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Medford
Klamath Falls
Crescent City
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AIR SERVICE AT OREGON COMMUNITIES (Jet Aircraft) February 1984
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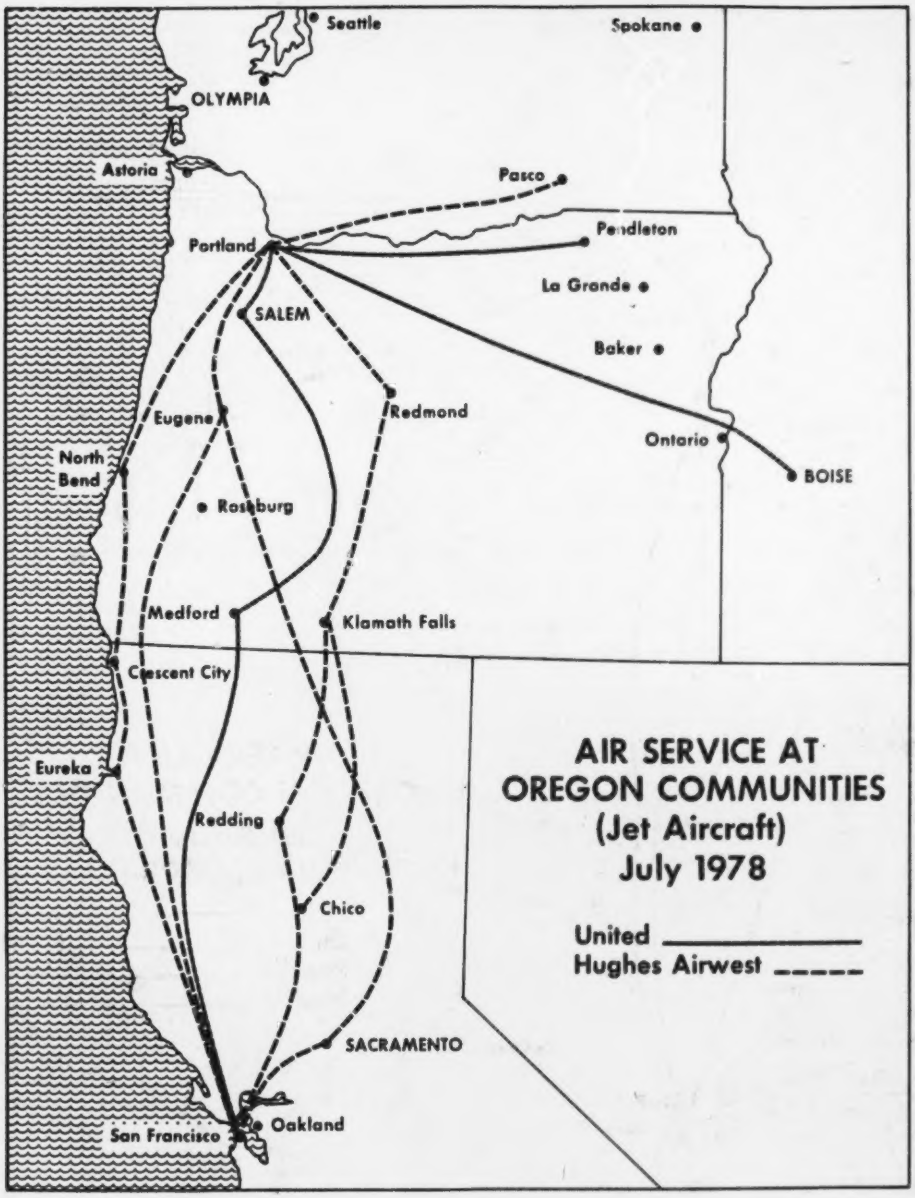

AIR SERVICE AT OREGON COMMUNITIES (Jet Aircraft) July 1978

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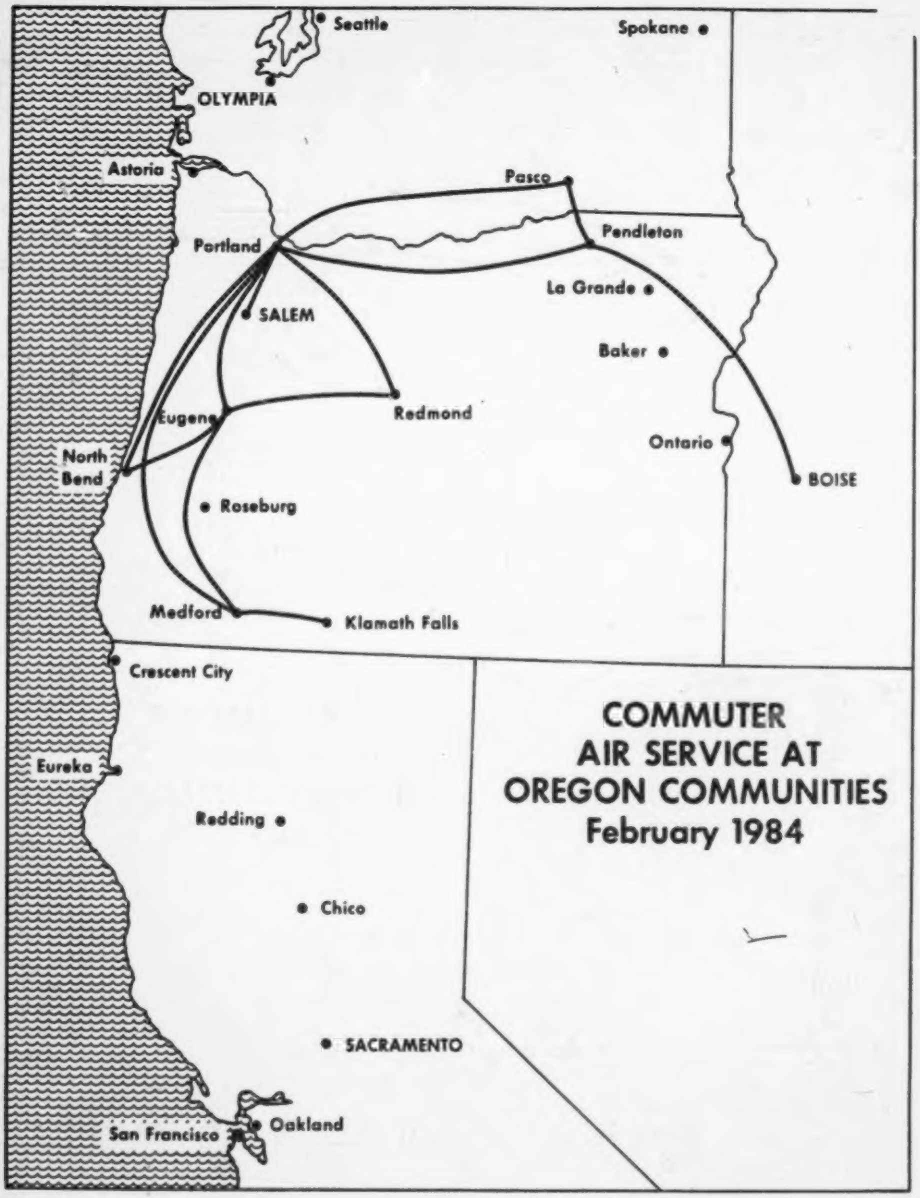

COMMUTER AIR SERVICE AT OREGON COMMUNITIES February 1984

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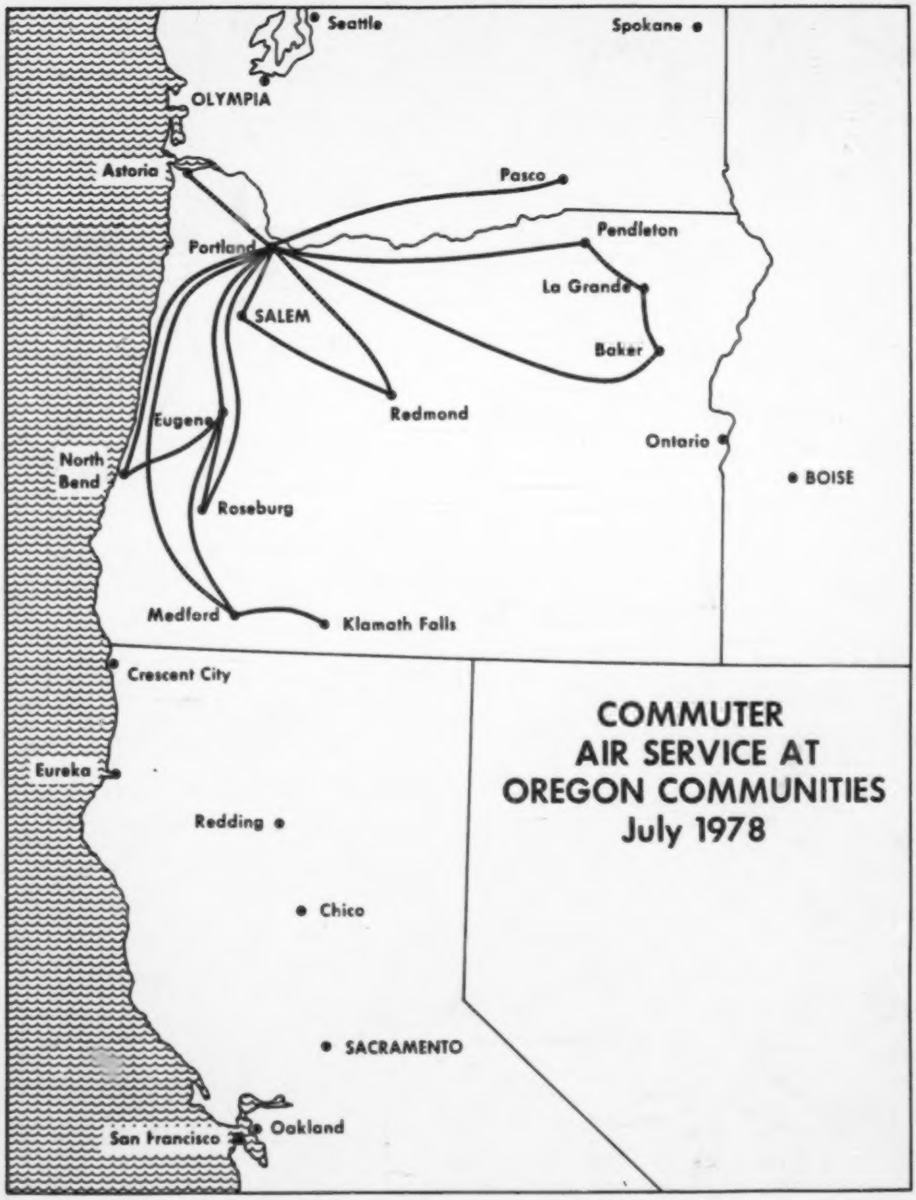

COMMUTER AIR SERVICE AT OREGON COMMUNITIES July 1978

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Oakland
San Francisco

REPORT BY THE
Comptroller General
OF THE UNITED STATES

More Flexible Eligibility Criteria Could Enhance The Small Communities Essential Air Service Subsidy Program

The Airline Deregulation Act of 1978 established the essential air service subsidy program to ensure that small communities would not lose air service through a 10-year transition period to deregulation. However, the number of passengers using air service at the 88 subsidized communities decreased by 50 percent since deregulation began in 1978. Unless the communities make progress toward achieving self-sustaining service, carriers are likely to abandon or substantially reduce service to most of the subsidized small communities when the program ends in 1988. GAO believes that the Congress should consider changes to the program to allow the Civil Aeronautics Board, which administers the program, to help some communities develop markets using higher subsidies or discontinue subsidies to communities unlikely to support air service.

GAO presents the views of 32 State aviation offices on options available to administer the program after the Civil Aeronautics Board ceases to exist on January 1, 1985.

UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/RCED-83-97
MAY 18, 1983

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-211163

The Honorable Nancy Landon Kassebaum
Chairman, Subcommittee on Aviation
Committee on Commerce, Science,
  and Transportation
United States Senate

Dear Madam Chairman:

In response to your August 2, 1982, request, this report discusses midpoint changes which could improve the essential air service subsidy program. The report discusses why the Congress should consider changing the eligibility criteria contained in the Airline Deregultion Act of 1978 to allow the Civil Aeronautics Board more flexibility to discontinue subsidies to communities that will not be able to achieve unsubsidized air service, or to temporarily increase subsidies to improve a community's competitive position. The report also discusses options available to administer the program after the Civil Aeronautics Board sunsets.

As arranged with your office, we are sending copies of this report to the Director, Office of Management and Budget; the Secretary, Department of Transportation; the Chairman, Civil Aeronautics Board; and other interested parties. We will also make copies available to others on request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

MORE FLEXIBLE ELIGIBILITY CRITERIA COULD ENHANCE THE SMALL COMMUNITIES ESSENTIAL AIR SERVICE SUBSIDY PROGRAM

DIGEST

Access to air transportation is important to many small communities because air service attracts new businesses and provides economic development. However, with the advent of airline deregulation in 1978, many small communities were in danger of losing air service because airlines were free to move to more favorable markets. Accordingly, the Congress, as part of the Airline Deregulation Act of 1978, (Public Law 95-504) established the essential air service subsidy program to ensure that small communities will have access to the Nation's air transportation system during a 10-year transition period to deregulation.

The Chairman, Subcommittee on Aviation, Senate Committee on Commerce, Science and Transportation, asked GAO to provide its views on (1) whether the essential air service subsidy program's eligibility criteria contained in the Airline Deregulation Act should be changed and (2) the alternatives available to administer the program after the Civil Aeronautics Board (CAB) ceases to exist on January 1, 1985. (See p. 3.)

SHOULD PROGRAM ELIGIBILITY CRITERIA BE CHANGED?

Under the Airline Deregulation Act communities are guaranteed essential air service if they were listed on the routes of CAB certificated air carriers on the date of the act. CAB initially determined the minimum air service requirements for 555 small communities covered by this guarantee and, as of October 1982, was paying airlines to provide service to 85 communities that would otherwise have had all service canceled. In addition, the act provided that certain other communities could be eligible for the program. These are communities that lost all air service in the 10 years preceding the act. Of the 137 communities eligible under this provision, CAB has funded 3. (See pp. 1 and 2.)

In fiscal year 1982 CAB paid $26 million to air carriers serving subsidized essential air service communities. In setting subsidy levels, CAB pays carriers an amount that covers their losses to serve subsidized communities plus a reasonable profit. Under the act CAB cannot discontinue subsidies to any of the communities with an air service guarantee, even where a community cannot realistically be expected to support air service when the subsidy program expires in 1988. CAB can, however, discontinue subsidies to the small communities being funded as a result of their losses of air service in the 10 years preceding the act. The act contains no provision for CAB to provide subsidies to help communities develop a more viable long-term market through enhanced schedules and/or services. (See pp. 2 and 3.)

To ascertain whether the act's eligibility criteria adequately provides for small community air service needs, GAO visited 14 subsidized essential air service communities in five States. In addition, with the assistance of the National Association of State Aviation Officials, aviation officials in all 50 States were asked to provide their comments on the eligibility criteria. (See pp. 3 and 4.)

The number of passengers using air service at the 88 subsidized essential air service communities decreased by 50 percent since deregulation became effective. And, unless circumstances change, carriers are likely to drop or substantially reduce service to the subsidized communities when the program ends in 1988. (See pp. 6 and 7.)

State and local aviation officials believe that some communities--where air traffic is depressed because of poor air service or scheduling by the departing air carrier--might be able to develop an economically sound market if their subsidies were increased temporarily. CAB program officials believe that certain communities receiving subsidies will never develop unsubsidized air service and do not require air service. Aviation officials from five States indicated that some communities not eligible for the program had greater need for air service than subsidized communities. (See pp. 10, 12, 17, and 18.)

A primary reason for passenger reductions in the subsidized communities was that nationwide air traffic was depressed between 1980 and 1982 by a slow economy and flight restrictions caused by the air traffic controllers' strike. Also, since airline deregulation, market conditions changed and in many small communities passengers were faced with higher fares, smaller airplanes, inconvenient scheduling, unreliable service, and frequent changes of carriers, all of which contributed to passenger declines. (See p. 8.)

State and local aviation officials at 10 of the 14 communities GAO visited stated that passengers from the small communities were commuting to nearby larger airports where carriers offer better service and scheduling and lower air fares. The other four communities were beyond 100 miles of a larger airport, and passenger declines were attributed to both a lack of demand for air service and unreliable air carrier service. (See p. 10.)

Danville, Virginia, is a case of a community that lost passengers to a larger nearby airport and where air service would likely be discontinued at the end of the subsidy program in 1988. Passengers boarding airplanes in Danville declined from 6,018 in 1977 to 513 in 1981.

Danville's 1981 subsidy of $236,452, averaged about $460 per round-trip passenger, while the round-trip air fare to its primary destination, Washington, D.C., was $164. State and community officials estimated that 90 percent of Danville's former air passengers are commuting 49 miles to the Greensboro, North Carolina, airport for better scheduling, larger airplanes, and lower air fares. The State, the community, and the carrier being subsidized believe that Danville can become a viable market with better flight scheduling and promotion. (See pp. 11 and 12.)

A number of essential air service communities, like Danville, Virginia, have lost passengers to larger airports. And, unless there are program changes or demand increases, subsidy payments to these communities will continue for the next 6 years, and then carriers will likely leave the communities without air service when the program ends.

GAO believes that the essential air service program can be more cost effective and have more long-term value if CAB were authorized to give communities the opportunity to develop an economically sound market during the remaining 6 years of the transition period. If the act's eligibility criteria were more flexible, CAB could discontinue subsidies to communities that probably will be unable to retain service after the subsidies end. Or, if a community has the potential to be a viable self-supporting market, but poor air service and scheduling in the past have discouraged passengers, then CAB could improve a community's competitive position with temporary subsidy increases to improve flight scheduling, services, and promotion.

More flexible eligibility criteria could also allow CAB to assist communities for which States can show greater demonstrated air service needs than some currently subsidized communities. (See pp. 21 and 22.)

HOW SHOULD THE PROGRAM BE ADMINISTERED AFTER CAB CEASES TO EXIST?

Thirty-two State aviation offices provided GAO their views on options available to administer the essential air service program after CAB ceases to exist. The Airline Deregulation Act of 1978 provides that the program will be transferred to the Department of Transportation (DOT) after CAB ceases to exist on January 1, 1985. The responses were divided among

--continuing to have an independent board to make essential air service determinations and subsidy decisions on a nationwide basis (41 percent),

--transferring the program to DOT (41 percent) and

--having States administer the program either through Federal funds or State and local matching funds (18 percent). (See pp. 26 to 29.)

The principal issue regarding the program's future administration is the ability to base decisions solely on the merits of the case and the overall public interest. Supporters of an independent board believe that insulation from political pressure allows a board to make difficult decisions on such matters as determining the essential air service needs of small communities, carrier selection, and setting subsidy levels. Supporters of transferring the program to DOT often point out that DOT would be more familiar with local needs and issues than CAB. Because of the interstate nature of the program, State administration may be difficult. GAO found no overriding reasons why the program should not be transferred to DOT as provided in the act. (See pp. 29 and 30.)

OTHER MATTERS

The Chairman also asked GAO to review whether

--air carriers were discontinuing service to communities not eligible for the essential air service subsidy program in order to serve subsidized communities and whether

--CAB's criteria for adding communities to the essential air service subsidy program, out of the 137 that lost air service in the 10 years preceding the act, is adequate.

When the Airline Deregulation Act was passed, 203 small communities were not eligible for the essential air service subsidy program because they were receiving air service on the date of the act solely from noncertificated carriers. Of these communities, 102, or 50 percent, subsequently lost all air service between 1978 and 1982. GAO found no evidence that air carriers, in order to serve subsidized communities, dropped all air service to other communities not eligible for the program. (See p. 16 and 17.)

Several States told GAO that CAB's criteria for adding other eligible communities adequately considers small community air service needs under this provision. Several other States, however, said that CAB's criteria is too restrictive. (See pp. 17 to 20.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Continuing the current essential air service subsidy program for its remaining life would allow a full 10-year transition period as the act intended, during which time the economy may improve and small markets may become able to support air service without a subsidy. However, continuing the program may have limited long-term impact if most communities lose all air service when the program ends, as the current trend indicates. The Congress needs to consider whether midpoint changes are needed to enhance the value of the program.

The Congress should consider changing program eligibility criteria to allow CAB greater flexibility to (1) temporarily increase some subsidies to improve flight scheduling, services, and promotion where this can help develop a community's air service market to the point where it will no longer require subsidies and (2) discontinue subsidies to communities that are unlikely to be able to support air service after 1988 because they are near larger airports that offer better air service or are too small and isolated to generate enough traffic for future self-sufficient service. It should be recognized that discontinuing subsidies to these communities during the 10-year transition period would represent a change in the guarantee provided by the 1978 act. In addition, the Congress should consider permitting CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if States propose such replacements. (See p. 23.)

AGENCY COMMENTS

CAB agreed with GAO's suggestion that it be given greater flexibility. It also said that it would comment at a later date on options for future administration of the program. (See pp. 23 and 30.)

CAB took issue that the report did not properly credit the program as being a success. GAO agrees that CAB has successfully ensured continued air service to all small communities guaranteed essential air service under current statutory provisions. Most of the subsidized communities, however, have continually lost passengers since airline deregulation, and when the program ends, many of these small communities are likely to lose all or a substantial part of their air service. GAO suggests more flexible eligibility critieria in the interest of improving the program. (See p. 23.)

Before DOT takes a position on increasing program flexibility, it wants to review the program with CAB. DOT said, however, that it supports GAO's suggestions to assure that the program is operated as efficiently and as effectively as possible. DOT also said that the program should be transferred to the Department on January 1, 1985, as currently provided by law. (See pp. 24 and 30.)

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ABBREVIATIONS

CAB	Civil Aeronautics Board
DOT	Department of Transportation
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

In the early days of commercial aviation, airline service was unprofitable and had to be subsidized by Federal funds. Airlines were first subsidized under the provisions of the Civil Aeronautics Act of 1938. Over the years, subsidy payments shifted to small regional carriers that provided service to cities dropped by the larger airlines as they moved to more favorable markets. Section 406 of the Federal Aviation Act of 1958, as amended (49 U.S.C. 1301 *et seq.*), authorized the Civil Aeronautics Board (CAB) to pay subsidies to certificated carriers[1] in certain circumstances. Under this authority, CAB subsidized air carriers to connect small communities with the national air transportation system. The section 406 airline subsidy program ended on September 30, 1982, but continuing appropriations for fiscal year 1983 (Public Law 97-276) provided section 406 carriers with reduced subsidies.

The Airline Deregulation Act of 1978 (Public Law 95-504) gave airlines gradual freedom from 40 years of CAB regulation over who could offer air service, where they could offer it, when they could terminate service to a given community, and what fares they could charge. With the advent of airline deregulation there was concern that small communities would suffer losses in air service because airlines would be able to move their resources to higher density markets. To address this concern, the Congress included in the Airline Deregulation Act of 1978 a program that would ensure continuous air service to small communities through a 10-year transition period ending in 1988.

THE ESSENTIAL AIR SERVICE SUBSIDY PROGRAM

Section 419 of the Federal Aviation Act, as amended by the Airline Deregulation Act, established a small community essential air service subsidy program to be administered by CAB. October 24, 1982, was the fourth anniversary of the scheduled 10-year subsidy program. The act contains no provisions that the subsidy should help the community develop a self-sustaining air service market.

CAB defines essential air service as the level of service that the Government should guarantee to ensure that a community will have access to its communities of interest (primary destination cities) and to the national air transportation system. Small communities are those that potentially may not be able to provide air service economically in a totally deregulated environment. In setting subsidy levels, CAB pays air carriers their losses to serve subsidized communities plus a reasonable return.

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[1] Carriers that hold CAB certificates of public convenience and necessity authorizing them to engage in air transportation.

The Airline Deregulation Act guaranteed essential air service to communities that were listed on air carriers' operating certificates on the date of the act. CAB initially determined the air service requirements for 555 small communities covered by this guarantee. As of October 1982 CAB was paying airlines to provide service to 85 communities in 31 States and Puerto Rico that would otherwise have had all service canceled. Carriers serving an additional 123 communities (95 of which were in Alaska) were receiving temporary subsidies until a replacement carrier could be found. CAB cannot discontinue subsidies to small communities with an air service guarantee even though they cannot realistically support air service.

The act also provided that certain other communities could be eligible for the essential air service subsidy program. These are communities that had been deleted from air carriers' certificates between July 1, 1968, and October 24, 1978. CAB determined the eligibility for an additional 137 communities covered by this provision. The act's criteria, which require CAB's interpretation and judgment, consist of the community's traffic generating potential, reasonableness of the subsidy costs, alternative transportation available, and isolation. As of October 1982, CAB funded three communities under this latter provision. CAB can discontinue subsidies to small communities being funded as a result of their loss of air service in the 10 years preceding the act.

A total of 203 small communities that were receiving air service from a noncertificated carrier on the date of the act were not eligible for the program.

FUNDING FOR SMALL COMMUNITY AIR SERVICE SUBSIDY PROGRAMS

Program funding since airline deregulation is shown in the table on page 3.

Funding for Small Community Air Service Subsidy Programs

Fiscal year	Section 406	Essential air service subsidy program (section 419)	Total
	(thousands)		
1979	$ 72,143	$ 507	$ 72,650
1980	80,074	9,053	89,127
1981	106,693	15,007	121,700
1982 (est.)	58,100	27,958	86,058
1983 (est.)	13,500	34,900	48,400

The average annual subsidy for the 88 communities funded under the essential air service program as of October 1, 1982, was $260,000 per community. The average annual subsidy for the 28 communities funded under section 406 as of September 30, 1982, was $854,000 per community.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Chairman of the Subcommittee on Aviation, Senate Committee on Commerce, Science and Transportation, asked us to examine the small community essential air service subsidy program. Her principal concerns were (1) should the eligibility criteria in the Airline Deregulation Act be changed and (2) what options are available to administer the program after CAB sunsets, scheduled for January 1, 1985.

In consultation with the chairman's office, we selected for detailed review five States which had small communities in the program. The selections were not made on either a statistically projectable or a random sample basis. Rather, the States were selected to provide geographic coverage and included California, Iowa, Minnesota, Nevada, and Virginia.

Our objective in this review was to ascertain whether the act's eligibility criteria adequately provides for small community air service needs in the States we visited. To achieve our objective we interviewed State Aviation Office officials and examined appropriate records, documents, and reports on air service use. We examined air service statistics and interviewed local aviation officials, community leaders, and officials of air carriers serving 14 small communities guaranteed essential air service. In addition, we interviewed officials from six other small communities that had lost air service but were not eligible for the subsidy program. Our purpose was to compare air service needs with subsidized communities' needs. The small communities were selected after we reviewed State aviation statistics and after our initial talks with program officials.

We also reviewed CAB reports, documents, regulations, and case files at its Washington, D.C., headquarters and its Western Regional Office in California. We analyzed CAB data on numbers of airline departures and passengers before and after airline deregulation for the 88 subsidized essential air service communities. We also analyzed airline departures for the 203 communities not covered by the program. The following communities were included in our review.

California:

- Merced (note a)
- Stockton (note a)
- Modesto (note a)
- Santa Rosa (note a)
- Blythe (note a)

Nevada:

- Ely (note a)
- Elko (note a)

Virginia:

- Danville (note a)
- Hot Springs (note a)
- New River Valley
- Wise

Iowa:

- Clinton (note a)
- Ottumwa (note a)
- Marshalltown

Minnesota:

- Worthington (note a)
- Fairmont (note a)
- Mankato (note a)
- Winona (note b)
- Alexandria
- Detroit Lakes
- New Ulm

a/Subsidized essential air service community.

b/Eligible for guaranteed essential air service, but elected to use service at nearby larger airport.

At our request the National Association of State Aviation Officials asked aviation offices in the 50 States and Puerto Rico to respond to our questions concerning the program's eligibility requirements, the adequacy of CAB's reviews of other eligible communities, and alternatives available to administer the program after CAB sunsets. The responses we received from 34 States are discussed in other chapters in this report.

Our review was performed in accordance with generally accepted government auditing standards.

CHAPTER 2

SHOULD THE ELIGIBILITY CRITERIA BE CHANGED?

Under the essential air service subsidy program CAB is subsidizing air service at 88 small communities, but the number of passengers using air service at these communities has decreased by 50 percent since deregulation. The principal reason for air passenger declines in the communities we visited is that passengers are commuting to larger airports that offer a better selection of flights and carriers, larger jet aircraft, and lower ticket prices than the subsidized communities' airports. Other reasons for passenger declines are unreliable air carrier service by departing carriers and depressed demand due to the poor economy. CAB believes that some of the communities with subsidized service will never develop a sufficient demand to warrant unsubsidized air service. Other subsidized communities may be able to develop such a demand with a temporary subsidy increase. On the other hand, State aviation offices believe that some small communities that currently have no air service need Federal subsidies more than the communities being subsidized.

Continuing the program for its remaining life would allow a full 10-year transition period as the act intended. Or, in the interest of improving the program, the Congress may wish to authorize CAB to

--temporarily increase some subsidies to help develop a community's air service market to where it no longer requires subsidies,

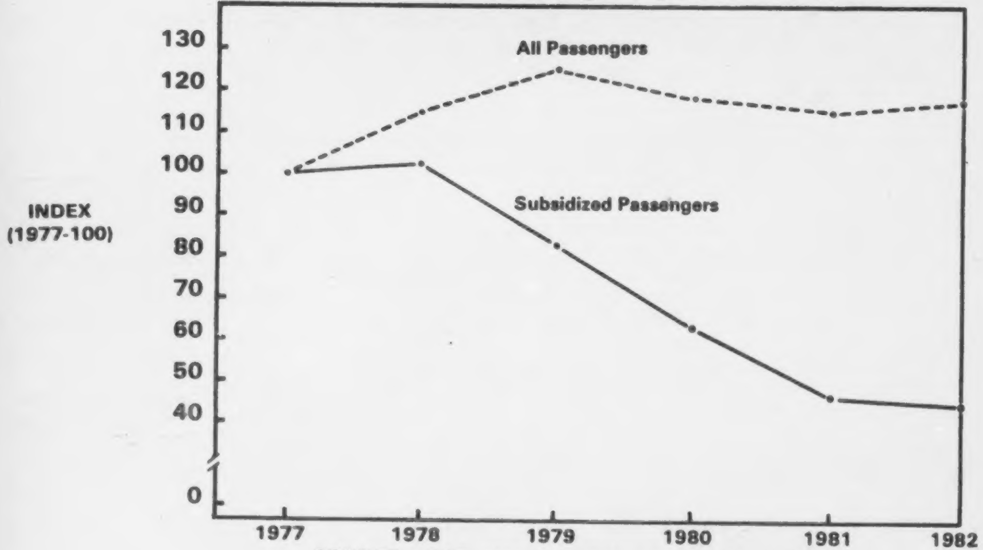
--discontinue subsidies to communities that are unlikely to support air service after 1988 because they are close enough to nearby larger airports offering better air service or are too small and isolated to generate enough traffic for self-sufficient service, and

--replace lower priority essential air service communities with communities that have demonstrated a greater air service need.

ESSENTIAL AIR SERVICE COMMUNITIES ARE LOSING PASSENGERS

The Airline Deregulation Act established the essential air service subsidy program to maintain air service to small communities during a 10-year transition to a free market. CAB interprets its responsibility as setting air service levels at the minimum to ensure that small communities have access to the Nation's air transportation system. The act contains no provisions that the subsidies should help communities develop self-sustaining air service markets. Also, CAB cannot discontinue subsidies to communities that cannot support air service. Under these precepts, CAB has successfully maintained essential air service to small communities protected by the act. However, despite the continuation of air service, our analysis of the 88 communities showed that most of the communities are not making progress toward attaining self-sustaining service in a free market environment and the number of air passengers decreased by 50 percent since deregulation. If traffic does not increase, carriers are likely to discontinue or substantially reduce service to most small communities when the subsidy program ends.

Changes in Passengers Boarding Aircraft
Subsidized Air Services and All Domestic Air Services
January 1, 1977, through September 30, 1982



SOURCE: CAB passenger data reported by airlines through September 1982, adjusted in certain cases to reflect passenger statistics not included in CAB's data base.

The airline industry is sensitive to economic conditions and was adversely affected during the period 1980 through September 1982 by a slow economy, rapidly rising fuel costs, and the air traffic controllers strike with its aftermath of restricted capacity at major airports. (See our reports entitled "The Changing Airline Industry: A Status Report Through 1980" (CED-81-103, June 1, 1981) and "The Changing Airline Industry: A Status Report Through 1981" (GAO/CED-82-94, June 24, 1982).) All small communities suffered severe air service losses during the 1980 through September 1982 period, which in addition to canceling earlier gains, produced overall net losses in departures and available seats since deregulation.

Small communities in the essential air service subsidy program experienced a transition since airline deregulation from larger carriers to smaller regional carriers. Larger carriers abandoned the small communities for more profitable markets. Some essential air service communities we visited experienced problems with the transition to regional carriers, and air service became unreliable, with frequent scheduling changes and fare increases. Many small community passengers were attracted to larger nearby airports for better service and scheduling, larger airplanes, and lower air fares.

Changes in passenger boardings, air service, and fares since deregulation for the essential air service communities we visited are shown on page 9.

Essential air service community	Passengers boarding aircraft (note a)			Weekly departures (note b)			Air fare to primary destination (note b)			Primary destination
	1977	1981	Percent change	1977	1982	Percent change	1977	1982	Percent change	
Danville, Va.	6,018	513	-91	28	10	-64	$41	$82	+100	Washington, D.C.
Hot Springs, Va.	3,863	2,378	-38	21	16	-24	41	87	+112	Washington, D.C.
Mankato, Minn.	4,680	2,495	-47	27	31	+15	28	62	+121	Minneapolis, Minn.
Worthington, Minn.	3,919	2,018	-49	27	12	-56	37	80	+116	Minneapolis, Minn.
Fairmont, Minn.	5,181	2,995	-42	27	30	+11	33	72	+118	Minneapolis, Minn.
Clinton, Iowa	5,947	1,573	-74	84	44	-48	32	71	+122	Chicago, Ill.
Ottumwa, Iowa	8,326	2,405	-71	26	22	-15	47	107	+128	Chicago, Ill.
Santa Rosa, Calif.	15,008	5,218	-65	124	48	-61	22	40	+82	San Francisco, Calif.
Blythe, Calif.	1,747	391	-78	14	12	-14	31	67	+116	Los Angeles, Calif.
Merced, Calif. (note c)	17,226	4,101	-76	14	40	+186	16	40	+150	San Francisco, Calif.
Modesto, Calif. (note c)	50,020	23,754	-53	59	50	-15	16	40	+150	San Francisco, Calif.
Stockton, Calif. (note c)	127,227	42,941	-66	87	61	-30	12	40	+233	San Francisco, Calif.
Elko, Nev.	11,007	8,477	-23	14	42	+200	40	81	+103	Reno, Nev.
Ely, Nev.	4,661	3,078	-34	14	42	+200	43	88	+105	Reno, Nev.
Average-- 14 communities	18,916	7,310	-61	40	33	-18	$31	$68	+119	

a/CAB passenger data reported by airlines. Complete calendar year 1982 data was not available at the time of our review.

b/Based on Official Airline Guide as of October 1, 1977 and 1982.

c/Passenger data adjusted to reflect statistics not included in CAB's data base.

In 10 of the 14 essential air service communities we visited, State and community officials attributed passenger declines to small communities' passengers using nearby larger airports. Passengers were influenced to use nearby larger airports for several reasons, including

- --high commuter fares,
- --small commuter aircraft,
- --poor flight scheduling, and
- --unreliable air service.

The other four communities we visited were beyond 100 miles from the nearest larger airport.

Essential air service community	Nearest larger airport	Number of miles
Blythe, Calif.	Palm Springs, Calif.	115
Ely, Nev.	Salt Lake City, Utah	246
Elko, Nev.	Salt Lake City, Utah	233
Fairmont, Minn.	Minneapolis/St. Paul, Minn.	150

State and community aviation officials attributed passenger declines in these small and remote communities to both a lack of demand for air service and unreliable air carrier service.

CAB program officials stated that some small communities in the essential air service subsidy program will require air service subsidies indefinitely. These are communities that have access to better air service, are too small to develop viable markets, or have satisfactory alternative ground transportation. Under provisions of the Airline Deregulation Act, CAB must continue to fund these communities until the program ends in 1988.

One community we visited rejected subsidized air service and elected to use a nearby larger airport. Winona, Minnesota, although guaranteed essential air service by the act, said that it would use the LaCrosse, Wisconsin, airport which provided certificated air service and was only about 25 miles away.

The Winona city manager said that the business community believed the essential air service subsidy program was wasteful by subsidizing uneconomical travel. He said that the LaCrosse airport was easily accessible and business travelers preferred larger aircraft. The official said that the community had no adverse effects by forfeiting essential air service and anticipates no future need for scheduled service at Winona. However, Winona sought and obtained CAB's assurance that the community would not forfeit its rights under the act, that is, it would be guaranteed essential air service through its own airport in the future.

The following examples illustrate reasons State and community officials cited for passenger declines in four communities we visited. The first three discuss passengers' preference to use nearby larger airports, and the fourth discusses poor carrier service and a lack of demand at a remote community.

Danville, Virginia

Danville, a community with a population of 44,700 in 1980, is located 49 miles from a medium-sized airport in Greensboro, North Carolina. In September 1979, based on historical traffic, CAB defined essential air transportation for Danville as two round trips each weekday, with 64 seats per day, and two round trips on weekends between Danville and Greensboro, Raleigh/Durham, or Roanoke. In April 1981 CAB approved the carrier's request to substitute one of the two weekday Raleigh/Durham round trips for one weekday round trip to Washington, D.C. Mid-South Aviation, Inc., currently provides service between Danville, Washington, D.C., and Raleigh/Durham, with an 18-passenger turbo-prop airplane, at a yearly subsidy of $236,452.

State and community aviation officials attributed sharp reductions in air service between 1977 and 1981 (see p. 9) as the principal reason for Danville's passenger declines. They estimated, based on their discussions with travel agencies, that 90 percent of Danville's air passengers drive to the Greensboro, North Carolina, airport for better flight scheduling and larger more comfortable jet airplanes.

As an example of the additional service and lower air fares offered at the Greensboro airport, a Danville air passenger bound for Atlanta on a weekday in October 1982 had three choices:

1. A passenger could leave Danville at 8:03 p.m., arrive in Raleigh/Durham at 8:30 p.m., get a connecting flight in Raleigh/Durham at 9:55 p.m., and arrive in Atlanta, Georgia, at 11 p.m.--cost $176.

2. A passenger could leave Danville at 7:27 a.m., arrive at Washington's National Airport at 9 a.m., get a connecting flight at National at 10 a.m., and arrive in Atlanta at 11:44 a.m.--cost $249.

3. A passenger could take a bus or drive 49 miles to Greensboro, North Carolina, and have a choice of 14 direct jet service flights to Atlanta. A passenger boarding a 7 a.m. flight in Greensboro could arrive in Atlanta at 7:59 a.m.--cost $132.

State and local community aviation officials believe that Danville needs more flights and better scheduling if the community is to become self-sufficient. State officials told us that a temporary 1- or 2-year increase in Danville's air service is needed, and if the community cannot support unsubsidized air service within this time, then the subsidy should be discontinued.

The President of Mid-South Airlines, the carrier serving Danville, believes that Danville can become a viable market. He suggested to us that CAB should temporarily increase Danville's essential air service to two flights per day to Washington, and if the community cannot support air service, then subsidies should be discontinued. He believed that CAB's policy of spending as little as possible in each market does not meet the needs and interests of the community. He said that a subsidy for 4 to 5 years is needed to allow carriers to invest in the equipment to make air service profitable.

The airline president said that when Mid-South bid for the Danville market, the airline knew from its marketing research that the proposed Danville to Raleigh route would not be profitable because Raleigh was not a community of interest for Danville. Mid-South bid for the route in order to get the essential air service subsidy. Mid-South needs seven passengers on its 18-seat airplane to break even without the subsidy. In 1981 enplanements at Danville averaged one passenger per flight.

Clinton, Iowa

Clinton, a community with a population of 32,779 in 1980, is located 40 miles from a small-sized airport in Moline, Illinois, and 145 miles from a large airport in Chicago, Illinois. In September 1981 CAB defined essential air transportaion for Clinton as two round trips each weekday, with 44 seats per day, and two round trips on the weekend between Clinton and Chicago. American Central Airlines, which began providing service in April 1982, at a yearly subsidy totaling $790,814, currently provides service on a linear route between Clinton and Ottumwa, Iowa (another essential air service community) and Chicago, using an 18-seat prop aircraft and an 8-seat prop aircraft.

On May 20, 1981, a CAB-designated panel held an informal conference to review the community's current air service needs due to significant passenger losses (see p. 9). At the conference, the community said that much of its traffic decline was a result of poor timing of flights, undependable operations, frequent schedule changes, and seats in use by passengers from other points. One Clinton travel agency estimated that 90 percent of the tickets his agency wrote were for trips originating at airports other than Clinton. The Iowa Department of Transportation stated that the traffic decline was due to rising air travel costs and the availability of lower fares at Moline.

CAB concluded that a primary reason for the traffic decline appeared to be the proliferation of high frequency, low-fare service in the Moline-Chicago market. Moline is a 1-hour drive from Clinton, and 18 round trips per day were available between Moline and Chicago, with fares approximately $10 to $20 lower than between Clinton and Chicago. CAB said that Clinton was faced with the same situation as other communities located near hub airports. As competition at the nearby hub increases, the convenience afforded by the wide range of fares and services available attracts passengers formerly boarding at the small community's airports.

The President of American Central Airlines, the airline serving Clinton, believes that the airline could serve Clinton without subsidy now if it could size the aircraft and adjust seat availability to the community's current enplanement levels. This would involve reducing the aircraft size and eliminating weekend service. He said, however, that this action may limit the community's potential for enplanement growth.

The Iowa State Aviation Office and a Clinton aviation official believe that Clinton has a good potential for achieving self-sufficient air service.

Mankato, Minnesota

Mankato, a community with a population of 28,668 in 1980, is located 77 miles from a large airport in Minneapolis/St. Paul. In January 1980 CAB defined essential air transportation for Mankato as two round trips each weekday, with 92 seats per day, and two round trips on weekends between Mankato and Minneapolis/ St. Paul. Mesaba Aviation, Inc., currently provides service on a linear route between the three essential air service communities of Mankato, Worthington, Fairmont, and Minneapolis/St. Paul, with a 15-passenger turbo-prop aircraft, at a yearly subsidy totaling $658,312.

According to the Minnesota State Aviation Office and Mankato community officials, passenger declines (see p. 9) in Mankato were primarily due to high fares that caused passengers to drive or take a commuter bus to Minneapolis/ St.Paul.

A passenger using air transportation on a weekday in October 1982 from Mankato to Minneapolis/St. Paul would depart Mankato at 7:10 a.m. and arrive in Minneapolis/St. Paul at 7:40 a.m.; the coach fare would be $61.70. A passenger could also drive 77 miles from Mankato to Minneapolis/St. Paul or take a limousine for $15 departing Mankato at 8 a.m., and arriving Minneapolis/St. Paul at 9:30 a.m.

The President of Mesaba Aviation, Inc., the carrier serving Mankato, believes that Mankato could not presently be served without a subsidy. He believes that Mankato could potentially be self-sustaining although enplanements would have to double for air service to be economical.

The Minneapolis State Aviation Office said that Mankato does not have a realistic probability of being self-supporting by 1988 and will likely require subsidies beyond 1988 if it is to retain air service. Mankato community officials agreed that Mankato probably could not generate adequate traffic to support unsubsidized air service by 1988.

Blythe, California

Blythe, a community with a population of 6,900 in 1980, is 115 miles from a small airport in Palm Springs, California, and

200 air miles to Los Angeles, California, Blythe's essential air service destination airport. In April 1980 CAB defined essential air transportation for Blythe as two round trips each weekday, with 24 seats per day, and one round trip on weekends between Blythe and Los Angeles. In July 1982 CAB selected Desert Sun Airlines to provide Blythe's essential air service with a 9-seat turbo-prop airplane, at a yearly subsidy of $428,435.

The Directors of CAB's Western Region stated that Blythe is an example of a community that should not be receiving subsidies. They stated that Blythe has never generated traffic sufficient to support an airline in the past and cannot be expected to generate traffic in the future. They noted that although Blythe was fairly isolated, it had a well-maintained major freeway which provided good access to other airports. They noted that Blythe had good service for long periods of time in past years and those periods should have represented a fair trial period to show that it could not sustain air traffic.

The CAB Chairman filed a concurring statement to the Blythe subsidy order in which he noted that the projected subsidy cost of over $250 per passenger is terribly expensive. He stated that "if this subsidy was not mandated by law, I would vote against it as a waste of taxpayer dollars."

A California State aviation official involved with the program stated that Blythe will never be self-sufficient and that the airline will pull out or collapse when the subsidy is discontinued.

The President of Desert Sun Airlines, the carrier serving Blythe, indicated that the airline required more than four passengers on each flight to break even, once startup costs are recovered and only fixed operating costs are considered. In October 1982 the airline had two passengers on each flight. He did not know whether Blythe would become self-sufficient.

MANY SMALL COMMUNITIES NATIONWIDE HAVE LOST AIR SERVICE

Since airline deregulation many small communities have lost air service or have had sharp reductions in the number of flight departures. With the advent of airline deregulation, there was concern that the new freedoms given air carriers would mean abandonment of many smaller less profitable markets. The act, however, did not make all small communities eligible for the essential air service subsidy program--the coincidence of whether a community was receiving air service from a certificated carrier on the date of the act determined a community's eligibility for the program.

Small community air service losses since deregulation

A total of 203 small communities were not eligible for the essential air service subsidy program because they were receiving air service on the date of the act from a noncertificated carrier. Of these communities, 102, or 50 percent, subsequently lost all air service between 1978 and 1982. Another 18 communities, or 9 percent, suffered at least a 50-percent reduction in service. The overall loss, however, was somewhat offset by 15 new small communities that gained air service between 1978 and 1982.

Reaction was mixed in the five States we visited regarding the impact of lost small community air service. State aviation officials in the five States we visited told us that 27 small communities lost all air service since airline deregulation and identified 2 of these communities as having greater air service needs than the essential air service communities in their States.

In Iowa and Minnesota seven communities lost all air service since airline deregulation. State officials and community officials for four of these communities said that no hardships were experienced from the lost air service primarily because the communities did not depend on air service.

In Virginia, one community lost all air service since airline deregulation. State aviation officials said that the community, Wise, Virginia, had an air service need greater than the two Virginia communities in the essential air service subsidy program. The Chairman of the Cumberland County Airport Commission told us that past air service to Wise was profitable, but the carrier attempted unprofitable expansion and failed. He said that the community's two to three passengers per day were supplemented by a heavily used freight business. The community is 1 hour and 45 minutes driving time to the nearest airport.

In Nevada 11 small communities had air service starting during 1978 and ending during 1982. Nevada transportation officials said that there was no known adverse impact to the communities from the lost air service and none of the communities had a greater air service need than the two communities in the program.

In California eight small communities lost all air service since airline deregulation. The California State Aviation Office identified one of the eight communities as having a greater need for air service than subsidized essential air service communities. The aviation office said that this community, Lakeport, California, has documented a substantial number of passengers chartering aircraft to San Francisco and is planning to develop a runway that will support an instrument landing system.

We found no evidence that air carriers, in order to serve subsidized essential air service communities, dropped all air service to other communities not eligible for the program. We examined air carrier routes for carriers serving essential air service communities for 1 year before and after receiving subsidies. In one instance, an airline changed its name when it was awarded essential air service subsidies to serve Clinton and Ottumwa, Iowa. The airline had discontinued service to Marshalltown, Iowa, 1 month earlier.

We asked the airline president if the airline terminated service to Marshalltown to obtain operating subsidies at the other Iowa locations. The president said that Marshalltown did not achieve revenue and enplanement goals. He attributed part of the enplanement decline to the airline's operational problems which resulted in operating deficits and eventual termination. He said that the community was not completely to blame for the low enplanements and that the airline plans to resume service to Marshalltown in the near future using extensive promotion.

CAB's determination for other eligible communities

In the 10 years preceding the 1978 Airline Deregulation Act, 137 communities lost all air service from a certificated carrier. These communities are eligible for subsidies if CAB determines they are eligible for the essential air service subsidy program. CAB has funded only three communities under this provision.

In the five States we visited, State aviation offices identified only one "other eligible" community currently without air service that had greater air service needs than the essential air service communities. The Virginia State Aviation Office identified the New River Valley Airport, which serves Blacksburg, Radford, and Pulaski, Virginia, as having a greater need than the essential air service communities. New River Valley had a projected passenger demand which exceeded, by over 50 percent, the subsidized communities' potential demand.

Through the National Association of State Aviation Officials, we asked State Aeronautics Directors for their views on (1) whether there are any small communities in their States that have greater air service needs than the subsidized essential air service communities and (2) the adequacy of CAB's criteria for considering small communities eligible under the act's provision for "other air service."

Of the 31 States that have communities receiving subsidized essential air service, 26 responded to the first question. Five States identified communities, currently without service, that have greater needs than the subsidized communities in their States.

Of the 29 States that have communities eligible under the other air service provision, 18 responded to the second question. Eight respondents said that CAB adequately considers small community essential air service needs under this provision, while eight respondents offered suggestions for improving CAB's determinations. Two respondents did not know if CAB's determinations or criteria were adequate.

Examples of respondents that said CAB's criteria is adequate follow.

--Indiana said that its two eligible communities "* * * were unable to support subsidized scheduled service in the past and our studies indicate that they would probably be unable to support service now."

--Maine said that CAB adequately considers communities under the other air service provision and that its only eligible community "* * * advised CAB they did not want to be considered under the program."

The respondents that were critical of CAB's determinations of a community's eligibility mentioned most often that CAB is too restrictive in interpreting the criteria and that CAB relies too heavily on historic traffic, which may have been depressed because of poor service by carriers. For example:

- --Georgia said that the eligibility criteria does not appear to be a problem; however, "The Board places nearly total dependence on historic enplanement data and disregards current studies documenting the community's potential."

- --Vermont said that "CAB is too reluctant to institute development of a market which has been ignored and then dropped by a carrier."

Many small communities that are guaranteed essential air service by the Airline Deregulation Act would not likely be eligible for subsidies if CAB considered them under the act's provision for "other eligible communities." The criteria consists of the community's traffic-generating potential, reasonableness of the subsidy costs, alternative transportation available, and isolation. The criteria requires the interpretation and judgment of CAB. The most objective of CAB's considerations is distance to the nearest hub[1] airport and the number of enplaned passengers. CAB states that if an airport is from 30 to 60 miles from a hub airport, the community will be eligible if it enplanes or has the potential to enplane 20 passengers per day, 5 days per week. A community 60 to 100 miles from a hub airport should enplane 10 passengers per day; a community over 100 miles from a hub must demonstrate sufficient demand for air service.

The essential air service communities we visited that were within 100 miles of a hub airport are shown on page 20 together with the 1981 enplanements. Calendar year 1982 enplanements were not available at the time of our review.

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[1] Airports which enplane 0.05 percent or more of the Nation's total enplaned passengers.

Subsidized community	Nearest hub airport		Enplanements per day 1981	Enplanements needed per CAB criteria
	Name	Distance		
		(miles)		
Danville, Va.	Greensboro, N.C.	49	2	20
Hot Springs, Va.	Roanoke, Va.	80	10	10
Mankato, Minn.	Minneapolis/ St. Paul, Minn.	77	8	10
Worthington, Minn.	Sioux Falls, S. Dak.	63	6	10
Clinton, Iowa	Moline, Ill.	40	5	20
Ottumwa, Iowa	Des Moines, Iowa	86	8	10
Santa Rosa, Calif.	San Francisco, Calif.	58	17	20
Merced, Calif.	Fresno, Calif.	55	21	20
Modesto, Calif.	San Jose, Calif.	75	80	10
Stockton, Calif.	Sacramento, Calif.	47	137	20

Another of the act's eligibility criteria is the reasonableness of the subsidy costs to the Federal Government to provide essential air service to communities. CAB's criteria, however, does not define what a reasonable subsidy cost is. In several of the communities we visited the subsidy costs are greater than the round trip air fare to the community's primary destinations. Following is the subsidy cost per boarding passenger compared with the round trip air fare to the primary destinations for the 14 subsidized communities we visited.

Subsidized community	Subsidy cost per round trip (note a)	Round trip air fare to primary destination (note b)
Danville, Va.	$ 461	$164
Hot Springs, Va.	98	175
Mankato, Minn.	88	123
Fairmont, Minn.	88	144
Worthington, Minn.	88	160
Clinton, Iowa	199	142
Ottumwa, Iowa	199	114
Santa Rosa, Calif.	53	80
Blythe, Calif.	1,096	134
Merced, Calif.	104	80
Modesto, Calif.	4	80
Stockton, Calif.	4	80
Ely, Nev.	95	176
Elko, Nev.	95	162

a/Based on CAB 1981 passenger data.

b/Based on Official Airline Guide as of October 1, 1982.

CONCLUSIONS

CAB has successfully ensured air service to the 555 small communities that are guaranteed air service by the Airline Deregulation Act. While most of the communities are receiving subsidy-free air service, 88 communities require subsidies to support air service. However, most of the 88 communities receiving essential air service are not making progress toward attaining self-supporting air service and have experienced sharp passenger reductions since airline deregulation.

A number of the communities are located within easy reach of nearby larger airports, and passengers are driving or taking alternative ground transportation to the larger airports for lower ticket prices, larger airplanes, and better service and scheduling. Some small communities lost air passengers because of past poor service and scheduling from departing air carriers.

When the Airline Deregulation Act was passed, 203 small communities were not eligible for the essential air service subsidy program because they were receiving air service on the date of the act from a noncertificated carrier. Of these communities, 102, or 50 percent, subsequently lost all air service between 1978 and 1982. We found no evidence that air carriers, in order to serve subsidized communities, dropped all air service to other communities not eligible for the program.

The Airline Deregulation Act also provided that another group of small communities could be eligible for the program. These are communities that lost all air service in the 10 years preceding the act. Of the 137 communities eligible under this provision, CAB has funded 3. Several States told us that CAB's criteria adequately considers small community air service needs under this provision, while several told us that CAB's criteria is too restrictive. If the criteria were applied to guaranteed essential air service communities, many would not qualify for subsidies.

The Congress needs to consider changes to the way CAB subsidizes essential air service communities. Unless demand increases, subsidy payments to most communities will continue for the next 6 years and then carriers will leave the communities without air service when the subsidy program ends.

We believe that the essential air service program can be more cost effective and have more long-term value if CAB were authorized to develop an economically sound market during the remaining 6 years of the transition period. If the act's eligibility criteria were more flexible, CAB could discontinue subsidies to communities that probably will be unable to retain service after the subsidies end. Or, if a community has the potential to be a viable market, but poor air service and scheduling in the past has discouraged passengers, then CAB could improve a community's competitive position with temporary subsidy increases. More flexible eligibility criteria could also allow CAB to assist communities for which States can show greater demonstrated air service needs than some currently subsidized communities.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress guaranteed air service to certain small communities until October 1988. Continuing the current essential air service subsidy program for its remaining life would allow a full 10-year transition period as the act intended, during which time the economy may improve and small markets may become able to support air service without a subsidy. However, continuing the program may have limited long-term impact if most communities lose all air service when the program ends, as the current trend indicates.

The Congress should consider changing the program's eligibility criteria to allow CAB greater flexibility to increase or decrease subsidies to selected communities. It should be recognized that discontinuing subsidies to these communities during the 10-year transition period would represent a change in the guarantee provided by the 1978 act. CAB could be given the authority to

--temporarily increase some subsidies to improve flight scheduling, services and promotion where this can help a community's air service market to where it will no longer require subsidies and

--discontinue subsidies to communities that are unlikely to be able to support air service after 1988 because they are close enough to larger airports offering better air service or are too small and isolated to generate enough traffic for self-sufficient service.

The Congress should also consider permitting CAB to allow communities with greater demonstrated air service needs to replace lower priority essential air service communities if States propose such replacement.

AGENCY COMMENTS AND OUR EVALUATION

CAB agreed with our suggestion that it be given greater flexibility to increase or decrease subsidies to selected communities. CAB stated that our suggestion that new communities be substituted for communities now under the program is a policy decision that the Congress needs to make. CAB also said that the report presents a very distorted and pessimistic view of the program. CAB said that the program is a success because CAB has maintained air service to all eligible communities and at substantial subsidy reductions.

We agree that CAB has successfully ensured continued air service to all eligible small communities under current statutory provisions. Most of the subsidized communities, however, have continually lost passengers since airline deregulation, and when the program ends, many of these small communities are likely to loose all or a substantial part of their current air service. We suggest flexibile eligibility criteria in the interest of improving the program. CAB's detailed comments and our evaluation of them are included in appendix I.

Before DOT takes a position on increasing program flexibility, it wants to review the program with CAB. DOT said, however, that it supports our suggestion to assure that the program is operated as efficiently and effectively as possible. DOT's detailed comments are included in appendix II.

CHAPTER 3

HOW SHOULD THE PROGRAM BE ADMINISTERED AFTER CAB SUNSETS?

The Airline Deregulation Act of 1978 provides that CAB will cease to exist on January 1, 1985, and that the program and other functions will be transferred to DOT.

The Congress is considering legislation to transfer CAB's functions to DOT and other appropriate agencies earlier than January 1, 1985. There have also been congressional discussions about retaining an independent board to administer the program.

Several options are available on how the program should be administered after CAB sunsets. While we do not favor any one option, we note that the least favored option among the States is to transfer the program to State aviation offices. Thirty-two State aviation offices provided us their opinions on how the program should be administered after CAB sunsets. The majority of the responses were divided between

--continuing an independent board to make essential air service determinations and subsidy decisions on a nationwide basis (41 percent) and

--transferring the program to DOT after CAB sunsets (41 percent).

A smaller number of respondents (18 percent) favored State administration of the program either on the basis of a Federal grant program or shared State and local matching funds.

As part of a study on how it will transfer all of its remaining functions when it sunsets, CAB is studying methods of administering the program to safeguard independent decision-making. As of March 1983, CAB expected that the study would be completed in the spring of 1983.

DOT is studying how it will maintain independence in aviation decisions after CAB sunsets. DOT has found no evidence to indicate that the program requires an independent body. The Chairmen and Ranking Minority Members of both the Subcommittee on Aviation, Senate Committee on Commerce, Science and Transportation, and the Subcommittee on Aviation, House Committee on

Public Works, asked DOT to study the issue of DOT maintaining its independence in aviation decisions and explain how it will handle CAB functions after it sunsets. DOT expects to have an official position in April 1983.

CONTINUE AN INDEPENDENT BOARD

Thirteen State aviation offices favored continuing an independent board to administer the essential air service subsidy program. The reasons focused on the board's ability to determine nationwide priorities and needs. Several State aviation offices responded as follows.

1. Hawaii--"If the subsidy program continues to have a limited budget, and it will, an independent Board should be better able to determine priorities and national needs in determining distribution of funds."
2. Iowa--"A Federal level independent board is necessary to authoritatively administer funds, negotiate for routes and slots, and assist communities in providing and maintaining a viable air service network."
3. Minnesota--"CAB has a well qualified staff * * * to administer the Essential Air Service program * * *. * * * To do away with the CAB or shift its functions to another Federal agency will not rectify the perceived problems with the scheduled air transportation system or the Essential Air Service program. It may very well compound the problems."

Ten State aviation offices had reservations about continuing an independent board. The offices had doubts about CAB's ability to make nationwide determinations of needs and priorities. For example:

1. Alaska--"Prefer an agency more familiar with local issues and the nature of air transportation in specific regions or States."
2. Georgia--"CAB has chosen to undermine small community service by guaranteeing service at such low levels that it effectively eliminates any possibility of small communities developing self-sufficient air service.

> * * * We would be afraid of a successor developing, as the present Board has, into an unresponsive government agency that does not serve the public needs."

3. New York--"There is some question as to the effectiveness of an independent Board. States and local communities have minimal say in the Board's decisions which compels the Board to make generalized decisions, not specific to local needs."

TRANSFER THE PROGRAM TO DOT

Thirteen State aviation offices stated that the essential air service subsidy program, and certain CAB staff, should be transferred to DOT as specified in the Airline Deregulation Act.

1. Oregon--"Transfer program to DOT along with a few qualified CAB personnel to assist in the transition. Strongly recommend DOT maintain the existing CAB regional office structure throughout the life of the EAS program."
2. Texas--"* * * transfer the staff of the CAB currently administering the program to the Department of Transportation, with appropriate sunset provision for this function * * *."
3. Utah--"Retain some of the expertise from the Office of Congressional, Community and Consumer Affairs within U.S. DOT and have them work closely with State Aviation Agencies."

Two State aviation agencies had reservations about transferring the essential air service subsidy program to DOT.

1. Wyoming stated "* * * it appears that since [DOT] is so large, there would be little chance to reach the top level for a decision. One might have to battle a multiple layer of bureaucracy. One could expect arbitrary decisions at the Federal level with no day in court."
2. New Hampshire--"Having DOT * * * [administer the program] might result in unneeded bureaucracy."

STATE ADMINISTRATION OF THE PROGRAM

We asked State aviation offices for their comments on (1) transferring program administration to State aviation agencies on the basis of a Federal grant program to provide funds and (2) transferring administration of Federal grants to State aviation agencies with shared State and local matching funds.

Four State aviation offices favored a program of State administration with Federal grants, and two States favored a program involving State and local matching funds.

1. Arizona--"States would have more insight where such grants could do the most good."
2. New Mexico--"* * * would accept administration of the program on the basis of a Federal grant program to supply subsidy."
3. Missouri--"Federal/local subsidy on a sliding ratio beginning at 90 percent Federal, 10 percent local, with the Federal share decreasing annually. * * * This would provide local incentive to assist the carrier build the market. The program should be administered at the State level."
4. Virginia--subsidy "* * * split should be 90 percent Federal, 5 percent State, and 5 percent local. States should be able to * * * provide subsidy as they see fit * * *."

Thirteen State aviation offices had negative comments regarding State administration of the program. Four States pointed out that State laws prohibit payment of State subsidies to private businesses. Six States also commented that the interstate nature of the program would make State administration impractical. Several State aviation offices comments follow:

1. North Dakota--"The time frame between CAB sunset in January 1985 and termination of all subsidies [3 years] is too short to entertain a shift to States."
2. Texas--"* * * joint State-Federal administration would add extra bureaucracy and be largely unworkable due to

jurisdictional and authority problems. For example, if an EAS point was in one State and the hub or possible hubs in another, who would make the determination of the level of service, which hub was primary, whether one carrier should be allowed to bump another, and so forth."

3. Wyoming--"Wyoming State law prohibits subsidization of any private organization with State funds."

CONCLUSION

The principal issue regarding the administration of the essential air service subsidy program after CAB sunsets is the ability to base decisions solely on the merits of the case and the overall public interest. Supporters of an independent board believe that insulation from political pressure allows a board to make difficult decisions on such matters as determining the essential air service needs of small communities, carrier selection, and setting subsidy levels. Supporters of transferring the program to DOT often point out that DOT would be more sensitive to local needs and issues than CAB. However, DOT is now studying the organizational structure and procedures to insulate decisionmaking from political pressures. Supporters of State administration believe that States have the best insight regarding where grants would do the most good. However, many States believe that the interstate nature of the program would make State administration difficult.

We do not favor any one option for administering the essential air service subsidy program after CAB sunsets. About 40 percent of the State aviation offices we contacted favor the establishment of an independent board to make subsidy decisions. Most State and community aviation officials we visited believe that CAB has provided objectivity and fairness in administering the program and that CAB's decisionmaking is open and well documented.

About 40 percent of the offices we contacted favor transferring the program to DOT as provided by the Airline Deregulation Act. We found no overriding reasons why the program should not be transferred to DOT as provided in the act.

About 20 percent of the offices we contacted favor State administration of the subsidy program, primarily because States have more insight regarding where subsidies would do the most good. Several offices, however, pointed out that laws in their States prohibit payment of matching State subsidies to private businesses, and several States commented that the interstate nature of the program makes State administration impractical.

AGENCY COMMENTS AND OUR EVALUATION

CAB said that it is currently working on issues related to transferring its functions after it sunsets, and its views on transferring the essential air service program will be made known at a later date.

DOT said that the program should be transferred to DOT after CAB sunsets, as currently provided by law. DOT stated the affected communities, the States, and the Federal Government will all benefit from the more streamlined and coordinated transportation policy and programs that are possible if the program is transferred to DOT. Whether DOT can operate more efficiently than an independent board depends on how the program will be administered within DOT, and this has yet to be determined.

CIVIL AERONAUTICS BOARD
WASHINGTON, D.C. 20428

IN REPLY REFER TO: B-1-69b

March 11, 1983

Mr. J. Dexter Peach
Director, Economic Resources,
Community, and Development Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

Enclosed are the comments of the Civil Aeronautics Board with respect to the GAO draft report entitled, "More Flexible Eligibility Criteria Could Improve the Small Community Essential Air Service Program". We understand that our comments will be appended to the final report.

Sincerely,

Dan McKinnon

Dan McKinnon
Chairman

Enclosure

COMMENTS OF THE CIVIL AERONAUTICS BOARD

The Civil Aeronautics Board is pleased to have this opportunity to present its views on the GAO study entitled, "More Flexible Eligibility Criteria Could Improve the Small Communities Essential Air Service Program". We are in general agreement with the GAO suggestion that the Board be given greater flexibility under the 419 program, but the analysis which GAO uses to buttress its position presents a very distorted and pessimistic picture of the program. 1/

THE ESSENTIAL SERVICE PROGRAM IS A SUCCESS

The section 419 program was primarily intended to aid small communities by guaranteeing continued air service during a 10-year transition to total deregulation. It was not intended as a developmental program, as the GAO report implies. Viewed in the proper context, the program has been a great success.

[GAO COMMENT: We do not view the intent of the current program as being developmental. In our "Matters for Consideration by the Congress," we stated that one option is continuing the current essential air service subsidy program for its remaining life, allowing a full 10-year transition period as the act intended, during which time the economy may improve and small markets may become more competitive.]

In spite of two recessions, the PATCO strike, sharp fuel price increases and a restructuring of the industry under less regulated conditions, no certificated point which received service throughout 1977 lost essential air service, and severe transitional problems have been avoided. 2/ In contrast, 102 non-certificated communities have lost service since deregulation.

1/ When given its assignment by the Senate Aviation Subcommittee, the GAO was also asked to give its views on options for administering the program following CAB sunset. However, the CAB is currently working on transfer issues, and our views on the transfer of the essential service program will be made known at a later date. Therefore, we will not comment on this aspect of the GAO report at this time.

2/ Of course there have been some brief interruptions in service due to strikes, carrier failures, etc., just as there have been at points outside the program.

The GAO study pays little attention to the enormous efficiency gains and associated subsidy reductions which have occurred while the goal of continued small community essential service was being achieved. Prior to the enactment of the Airline Deregulation Act, 202 points in the 48 contiguous states and another 198 points in Alaska received subsidized service under old section 406. Under new section 419 the number of communities requiring subsidy will be cut in half in the 48 states and is likely to be reduced by three-fourths in the State of Alaska. Of course essential service levels will be maintained at all communities, and in Alaska essential service levels are basically the service levels provided in 1976. Furthermore, the subsidy per point under section 419 is only a fraction of the cost per point under the section 406 approach. The old 406 program primarily subsidized service with jet aircraft which were only one-third full, whereas the new program more closely matches community service needs with aircraft of appropriate size.

[GAO COMMENT: We did not evaluate whether the essential air service subsidy program is more efficient than the section 406 subsidy program which ends September 30, 1983. Chapter one, however, compares the funding and average subsidy costs per community of the two programs.]

THE GAO REPORT PRESENTS A DISTORTED VIEW OF THE SUCCESS AND POTENTIAL FOR IMPROVEMENT OF THE SUBSIDIZED COMMUNITIES UNDER THE PROGRAM.

It is true, as GAO concluded, that traffic at many essential air service communities has declined considerably since passage of the Deregulation Act and that many of these communities may lose scheduled air service when Federal subsidies are no longer available. However, a casual reading of the data included in the report gives the impression that the essential air service program primarily has been responsible for the traffic decline. But the circumstances of several of the fourteen communities on which the review is focused are not typical. 3/ Some experienced a transition from their pre-deregulation carrier to a new carrier during 1981 or later, so 1981 traffic levels do not reflect a normal year after transition to subsidized EAS service. Furthermore, 1981 traffic results were strongly influenced by the recession, the PATCO job action, and other factors that we will elaborate below.

[GAO COMMENT: We do not imply that the essential air service program primarily has been responsible for the traffic decline at subsidized communities. The principal reason cited in chapter 2 is that passengers are commuting to nearby larger airports that offer a better selection of flights and carriers, larger jet aircraft, and lower ticket prices than the subsidized communities. Other reasons for passenger declines are unreliable air carrier service by departing carriers and depressed demand due to the poor economy.

Our selection of communities was intended to provide geographic coverage and is not statistically projectable. Although some of the communities experienced a transition to a new carrier during 1981 or later, 8 of the 14 communities were previously served by carriers subsidized by CAB under the section 406 small community air service program. Of the four communities discussed in detail in our report, Clinton, Iowa, was the only community which was not previously receiving CAB subsidized service. The detailed information provided by CAB about the examples cited in our report does not dispute any of the facts we presented.]

The four detailed examples

Four communities are discussed in detail in the study (Danville, Clinton, Mankato, and Blythe). Of these we would consider Clinton, Iowa, an example of the post-deregulation experience of most points in the essential air service program where commuter carrier service had replaced large aircraft certificated carrier service by the end of 1980. 4/ Mississippi Valley Airlines (MVA), a small certificated carrier, replaced Ozark Airlines at Clinton in 1976. Traffic at Clinton grew steadily from about 4000 enplanements in 1975 to 5,862 in 1976, 5,947 in 1977, and 6,343 in 1978. Then traffic dropped in 1979 to 3,205 enplanements, and continued declining to a low point of 1,573 enplanements in 1981. We attribute the decline to a number of different factors, but principally to improved service and discount fares at Moline, 25 miles south of Clinton. Early in 1982, we selected American Central Airlines to replace MVA at Clinton. Response to American Central has been favorable, and it appears that traffic at Clinton is rebounding. Available statistics indicate that American Central will board over 2200 passengers at Clinton during its first full year of service at the point. (MVA replaced Ozark at Ottumwa in 1979, and since that time Ottumwa's history and current traffic experience are very similar to Clinton's.)

3/ The fourteen cities are: Danville and Hot Springs, Virginia, Clinton and Ottumwa, Iowa, Ely and Elko, Nevada, Fairmont, Mankato, Worthington, Minnesota, and Santa Rosa, Modesto, Merced and Stockton, California. Winona, Minnesota, the only eligible point that has voluntarily waived essential air service, also received a long discussion in the GAO report.

4/ At points where a carrier transition occurred by the end of 1980, 1981 traffic data would reflect the results of the transition.

In contrast, Danville, Virginia, is unlike most essential air service communities because it is located within easy driving distance of not just one larger airport, but three hub airports. Greensboro is 49 highway miles to the southwest, Raleigh/Durham is 70 miles to the southeast, and Roanoke is 74 miles to the northwest. Even when Piedmont Airlines provided multifrequency service at Danville with large aircraft (60-seat YS-11 aircraft), the point never generated more than an average of 19 enplanements per day (in 1974). Traffic response to the two commuter carriers that replaced Piedmont after its departure in 1979, first Cardinal Air Virginia and then Mid-South Airlines, has been very limited. During 1981, Mid-South boarded 513 passengers at Danville, and during the first three quarters of 1982, it boarded 635 passengers. Although traffic improved during 1982, we question whether a minimum level of commuter carrier service at Danville ever could be successful in luring enough passengers from driving to nearby hubs to support service at Danville. Therefore, Danville is one of the communities for which, if we had discretion, we would consider subsidizing a higher level of service in a use-it-or-lose-it test or, alternatively, we would consider deleting the point from the program.

Mankato was served by Republic Airlines on a linear routing with Fairmont and Worthington to Minneapolis until October 24, 1981. Republic provided essentially the same service at the three points from the pre-deregulation period (1978) until its suspension, but the carrier adopted a series of fare increases during its last year of service at the points that depressed traffic. On October 25, 1981, Mesaba Airlines initiated its subsidized replacement service. Like Republic, Mesaba serves the three points over a linear routing to Minneapolis. In view of Republic's fare increases and the late date of the carrier transition, the 1981 traffic data do not provide a reasonable basis for evaluating the essential air service program. Mesaba's traffic at Fairmont and Worthington during its first 11 months of replacement service was only slightly below Republic's traffic during its last 10 months of service at the points. However, at Mankato Mesaba achieved only about half of Republic's traffic for the same periods of comparison. Mankato is located just over an hour's drive from the Minneapolis airport.

Blythe, California, is included in the essential air service program because in 1978 it was listed on the certificate of Cochise Airlines, a now defunct small certificated carrier. Cochise filed for reorganization under Chapter 11 bankruptcy laws and ceased service in June 1982. From 1978 until that time, the carrier's service, which was subsidized under section 406, became increasingly unreliable, and traffic at all of its single-carrier points was extremely discouraged. At Blythe, traffic dipped to 391 enplanements in 1981. In August 1982, we selected Custom Aviation d/b/a Desert Sun Airlines to provide essential air transportation between Blythe and Los Angeles. During its first five months of service, Custom has carried over 1000 passengers in the market. It expects traffic levels to continue improving. We have not concluded at this time that Blythe would be a candidate for deletion from the essential air service program. The community is more isolated than most communities in the program and, after its experience with Cochise's unreliable service, we believe it should be given an opportunity to demonstrate its demand for air service.

Other Communities Studied

With respect to the California and Nevada communities mentioned in the report, we would note that Merced, Modesto, and Stockton, California, have experienced a great deal of carrier turnover since 1978 due to an intrastate system characterized by unusually low fares and intensive competition for markets. Santa Rosa, California, is located 55 miles from San Francisco and limousine service presents stiff competition for commuter carrier service provided at the point by West Air. Ely and Elko, Nevada, lost all air service in 1981 when Golden Gate Airlines declared bankruptcy. Only a handful of essential air service communities have been affected by carrier bankruptcies. Ely and Elko are now examples of successful replacement service under the essential air service program. The points currently are served by Skywest Airlines, a small certificated carrier, that we selected after Golden Gate ceased service. Skywest is doing well and we are optimistic that the carrier can achieve the same traffic levels United Air Lines achieved when it served the points.

Due to the unusual circumstances of these cases or the timing of the transition from certificated to commuter carrier service, a focus on these communities in 1981 produces a misleading impression of the essential air service program. A similarly narrow focus on other communities located within the states included in the GAO review would produce a far different impression.

For example, at Hot Springs, Virginia, which is not far from Danville, replacement service provided by Colgan Airways, a small certificated carrier, has been very successful. Hot Springs is a seasonal point which formerly was served by Piedmont Airlines from April through November each year. Colgan assumed the essential air service responsibilities at Hot Springs beginning with the 1981 season. Its traffic during 1981 and 1982 surpassed the levels achieved by Piedmont during 1979 and 1980.

Problems with the use of 1981 data

GAO's comparison of 1977 and 1981 data for 88 subsidized points should not be read to imply that reductions in passenger boardings and departures resulted from transitions from certificated carrier service to replacement commuter service. As illustrated by the discussions above, this is not necessarily the case. Replacement service at Clinton began in 1976, and thus the 1977 data used in the study actually represent an increase over Ozark Airlines' historical traffic and service levels. Replacement service at Mankato, Fairmont, and Worthington began in October 1981 and at Blythe in August 1982. Therefore, the declines in passenger boardings and departures at these points from 1977 to 1981 were experienced with the incumbent carriers' service rather than replacement service.

Thus, a simple comparison of 1977 and 1981 data does not provide a good basis for drawing conclusions about the success of the essential air service program. To be valid, a comparison would have to be based on those points that had a continuous service pattern from a single carrier throughout 1977 (and preferably for several months leading up to 1977) and that also had a continuous replacement service pattern throughout 1981 (and preferably for several months leading up to 1981).

But even this type of anaylsis would be skewed by some unusual characteristics of 1981.

[GAO COMMENT: The chart on page 7 shows a continual decline in passengers since airline deregulation for all subsidized communities. Passenger reductions from 1977 to 1981 averaged about 60 percent for the 14 communities we visited, while passenger reductions averaged about 55 percent for all subsidized communities. We recognized in chapter 2 that airline traffic was adversely affected during the period 1980 through September 1982 by a slow economy, rapidly rising fuel costs, and the air traffic controllers strike, with its aftermath of restricted capacity at major airports.]

Broader problems with use of the 1981 data

(a) The recession. Air passenger traffic was affected significantly by the recessionary conditions prevalent during 1981. Overall, domestic certificated passenger enplanements decreased 6 million from almost 270 million in 1980 to about 264 millions in 1981. 5/ It is likely that more than a proportionate share of the reduction occurred at small communities where the lack of carrier competition resulted in a dearth of discount fares. We believe that any comparison of 1981 passenger traffic data with those of other years with more favorable economic conditions (such as 1977) used for a general evaluation of the program should include some adjustments to account for these economic influences. At the very least, conclusions drawn from unadjusted comparisons should be qualified.

(b) The PATCO job action. The Professional Air Traffic Controllers Organization job action in August 1981 seriously disrupted the domestic air transportation system. In fact, prior to the PATCO strike, departures were up at the majority of points currently receiving 419 subsidy, when compared to pre-deregulation Act levels. Many carriers were forced to reduce the number of flights they operated to large hub airports, and carriers that were not established before the strike were unable to obtain the slots necessary to begin operations. 6/ Therefore, any analysis of the number of departures operated in 1977, when slots were generally readily available, and 1981 will necessarily be greatly influenced by PATCO effects. In addition, since passenger traffic is normally stimulated with increases in the number of departures provided, we again would stress that 1981 traffic data should not be used for a general evaluation of the program.

5/ The 1981 data included the traffic of a greater number of carriers than the 1980 data, since many small carriers became certificated during 1980 and 1981.

6/ Many carriers also lost some of their more favorably timed slots and were forced to operate at unusual hours.

(c) Other Factors. It takes time for carriers to establish themselves in new markets. In most cases several months are needed before traffic begins to approach normal levels. In some cases, particularly those involving markets that have been subjected to erratic or unreliable air service by departing carriers, much more time is needed.

Many carrier transitions occured in 1980 and 1981. Consequently, we do not consider the 1981 traffic data for many points to be indicative of their true traffic generating potential.

We also take note of increasing efforts by large certificated carriers, such as USAir, United Air Lines and Pan American Airways, to work closely with commuter and small certificated carriers in order to gain feed traffic. The new cooperation between the large and small carriers has resulted in the expansion of very favorable joint fares from small communities and generally improved services. Some large carriers also have helped promote joint services originating at small communities. We anticipate that improved relationships between large and small carriers will cause traffic levels at essential air service communities to increase in the future.

MORE FLEXIBILITY COULD IMPROVE THE COST EFFECTIVENESS OF THE ESSENTIAL SERVICE PROGRAM

We agree with the GAO suggestion that the Board be given greater flexibility. There are points under the program that are within easy driving distance of larger airports where lower fares and more service are now available. Larger close-by airports have become more attractive because of the restructuring of the industry under deregulation. Thus, the cost of maintaining air service at some small points will likely always be quite high in relation to the number of passengers who choose to use the local airport. For this reason the Board believes that some flexibility should be introduced into the program to allow for the elimination of certain points. We should stress, however, that any elimination should be based on the long-term potential of a point and not on the results of short-term factors such as the PATCO strike or the recession which may have depressed traffic. We would of course not use this flexibility without a very careful review in each case.

At the same time we agree with the GAO suggestion that the Board should be authorized to engage in developmental tests. We have seen instances under the 419 program where high initial subsidies have allowed carriers to institute and then expand service so that traffic was greatly stimulated. New Bedford, Massachusetts, is the prime example of this phenomenon. At New Bedford, Air New England was replaced by Provincetown-Boston Airlines. PBA was selected to provide essential service for two years with a subsidy of about $800,000 for the first year and $420,000 for the second year. While only about 5,000 passengers enplaned at New Bedford in 1980, the last year of service by Air New England, in 1982 the point enplaned 33,000 passengers through November and should no longer require subsidy support in the years ahead.

The opportunities for such success stories may be limited. Nevertheless, we believe that the Board should be authorized to expand essential service definitions for a trial period, but this should be coupled with the authority to terminate a point's eligibility if a trial is not successful. Thus, the Board would have the option to pay high subsidy support for developmental levels of service; but if this option were taken, the community would have to support the service or risk losing its essential service guarantee in the future.

The GAO also suggested that states be permitted to propose the substitution of new points for points now under the program. The substitution of points could be a very difficult procedure to administer. It could change the character of the program and expand its scope well beyond the original purpose which was to allow existing certificated communities a 10 year transition to a deregulated environment. Expanding the program in this manner is a policy decision to be made by the Congress as they study the future of the essential air service program.

U.S. Department of Transportation

Assistant Secretary
for Administration

400 Seventh St., S.W.
Washington, D.C. 20590

MAR 14 [illegible]

Mr. J. Dexter Peach
Director, Resources, Community,
and Economic Development Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Peach:

We have enclosed two copies of the Department of Transportation's (DOT) reply to the General Accounting Office (GAO) draft report, "Small Communities Essential Air Service Program: Results After Four Years 1978-1982," dated January 26, 1983.

The Essential Air Service Program was established by the Airline Deregulation Act of 1978, in order to ensure that small communities would continue to receive air service for a ten-year period while airlines exercised their new freedom to enter and leave markets. The program is administered by the Civil Aeronautics Board (CAB) and provides subsidies for service to 88 small communities. Since the program's inception, the number of passengers using air service at these communities has decreased by 50 percent. Among other things, decreases were primarily due to the nationwide depression in air traffic between 1980 and 1982, and changes in market condition's in small communities since airline deregulation.

GAO believes that Congress should consider changes in the program to allow the CAB greater flexibility to: (1) discontinue subsidies to communities that have no chance for achieving unsubsidized air service; (2) increase temporarily subsidies to communities with potential for a viable market; and, (3) substitute communities for which States can share a greater demonstrated air service need than those subsidized currently.

DOT does not intend to take a position on the increased Program flexibility recommended by the GAO until we have had an opportunity to review this program closely with the CAB. On the question of future administration of the Program, we believe not only that, as the GAO points out, there are no overriding reasons why the program should not be transferred to DOT, but also that the affected communities, the States, and the Federal Government will all benefit from the more streamlined and coordinated transportation policy and programs that are possible if the Program is transferred to DOT.

If we can be of further assistance, please let us know.

Sincerely,

Robert L. Fairman

Robert L. Fairman

Enclosures

DEPARTMENT OF TRANSPORTATION REPLY
TO
GAO DRAFT REPORT OF MARCH 1, 1982
ON
SMALL COMMUNITIES ESSENTIAL AIR SERVICE PROGRAM: RESULTS AFTER FOUR YEARS, 1978-1982

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

The Essential Air Service Program was established by the Airline Deregulation Act of 1978 in order to ensure that small communities would continue to receive air service for a ten-year period while airlines exercised their new freedom to enter and leave markets. The Program, which provides subsidies to air carriers to assure continued small community service, is currently administered by the Civil Aeronautics Board (CAB). When the CAB sunsets on December 31, 1984, the Program will be transferred to the U.S. Department of Transportation, where it will be administered until the Program expires in 1988.

As currently administered by the CAB, the Program provides subsidies for service to 88 small communities, at an FY82 cost of $86 million in payments to airlines. In the four years the Program has been in existence, the number of passengers using air service at these communities decreased by 50 percent. The General Accounting Office (GAO) visited 14 of the 88 subsidized communities to determine the reasons for passenger declines and the potential of the communities to develop sufficient demand to warrant unsubsidized air service.

GAO found that a primary reason for the passenger losses was the nationwide depression in air traffic between 1980 and 1982; in addition, there have been changes in market conditions in small communities since airline deregulation which have contributed to passenger declines. In 10 of the 14 communities visited by GAO, potential passengers were driving to nearby larger airports, at distances as low as 40 miles, for better service, scheduling, and fares. The other four communities visited by GAO were beyond 100 miles of a larger airport and passenger declines were attributed to both a lack of demand for air service and unreliable air carrier service.

State and local aviation officials indicated in conversations with GAO that some of these small communities were unlikely to generate the demand necessary for unsubsidized air service, while other communities might be able to generate sufficient demand if subsidies were temporarily increased in order to develop the market. In some cases, these officials indicated that there were other small communities lacking air service in their states that have higher priority needs than communities receiving essential air service subsidies.

GAO believes that Congress should consider changes in the Program to allow CAB greater flexibility to discontinue subsidies to communities that have no chance for achieving unsubsidized air service, increase temporarily subsidies to communities which have the potential to be a viable market, and substitute communities for which states can show a greater demonstrated air service need than currently subsidized communities.

GAO also asked state aviation offices how the Program should be administered following the sunset of the CAB. Thirty-two states responded, of which 13 favored the continuation of an independent Board to administer the Program, 13 favored transfer of the Program to DOT, and 6 favored some form of state administration of the Program. Based on analysis of the reasons given for these three forms of administration, GAO makes no recommendation, but points out (a) there are a number of problems with state administration of the Program, including laws in some states prohibiting state subsidies to private businesses; (b) CAB administration is perceived as objective, fair, and well-documented; and (c) there are no overriding reasons why the program should not be transferred to DOT as currently provided by law.

SUMMARY OF DEPARTMENT OF TRANSPORTATION POSITION

DOT does not intend to take a position on the increased Program flexibility recommended by the GAO until we have had an opportunity to review this program closely with the CAB. On the question of future administration of the Program, we believe not only that, as the GAO points out, are there no overriding reasons why the program should not be transferred to DOT, but also that the affected communities, the states, and the federal government will all benefit from the more streamlined and coordinated transportation policy and programs that are possible if the Program is transferred to DOT.

POSITION STATEMENT

DOT has recently begun working with CAB to plan for the transfer of CAB functions, including the Essential Air Service (EAS) Program, to DOT upon the sunset of CAB on December 31, 1984. As part of this planning process, we will discuss with CAB staff the need for changes in the EAS Program, including the changes recommended by GAO. In the meantime, we prefer not to take a position on the GAO recommendations. We would, however, point out that we are supportive of the overall objective that underlies GAO's recommendations, that is, to assure that the Program is operated as efficiently and effectively as possible.

With regard to future administration of the EAS Program, the Department believes that the Program should be transferred to DOT upon the sunset of the CAB, as currently provided by law. Such a transfer would include the CAB staff who are administering the Program at the time of sunset; so there would be no loss of program continuity and expertise. In addition, there would be a gain from the federal perspective in that EAS Program policy and administration could be coordinated with overall national transportation policy and program delivery. Moreover, small communities and state aviation offices would have greater access, through DOT's regional offices as well as headquarters, to obtain information and convey needs and problems.

Finally, as a matter of accuracy, DOT wishes to correct several statements in the GAO report referring to a DOT study of procedures to insulate EAS Program decisionmaking from political pressures. The report indicates that DOT is conducting such a study and that DOT expects to have an official position in February 1983. In fact, DOT's review of the political insulation question is concentrated on international aviation functions, particularly the selection of U.S. carriers for limited-entry international air routes. DOT plans to complete this review in time for Congressional hearings in April 1983.

[GAO COMMENT: Although DOT's study is focusing on international aviation functions, DOT officials said that the results can have broader application to include carrier selection for essential air service communities. The ability to base decisions solely on the merits of the case and the overall public interest is the principal issue regarding administration of the program. Whether DOT can operate more efficiently than an independent board depends on how the program will be administered within DOT, and this has yet to be determined.]

[illegible]

United States Senate
COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION
WASHINGTON, D.C. 20510

August 2, 1982

The Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
WAshington, D.C.

Dear Mr. Bowsher:

The Airline Deregulation Act of 1978 established a subsidy program which guarantees essential air service to certain eligible small communities. This fall, the program will have been in effect for four of its authorized.ten years; and it is programmed to replace the section 406 air service subsidy program which has been in effect since the early 1940s. The Subcommittee believes it would be useful for its oversight of the effects of airline deregulation to review the essential air service program.

Since airline deregulation, some small communities which were not guaranteed service under the ADA have lost all air services. The Subcommittee is interested in the extent to which the availability of subsidies at certain cities caused a shift of resources resulting in this loss of service. The Subcommittee would like GAO to consider for a sample of small communities, which lost air service, whether they are more or less dependent on air transportation than small communities receiving subsidized service; and whether service shifts were more prevalent in any particular regions of the country. The Subcommittee would be interested in GAO's views on whether there should be a change in the eligibility criteria contained in the ADA.

The Subcommittee would also like GAO to review whether the Civil Aeronautics Board, in making determinations on adding new communities to the essential air service program, adequately considers (1) the small communities' isolation in terms of proximity to an air service center and the availability of alternative means of transportation to an air service center, and (2) the reasonableness of subsidy payments in terms of per passenger costs, and (3) the future traffic-generating potential of the small community.

Finally, the Subcommittee would like the GAO to consider options for how this program might be administered following CAB sunset. Is there a need for legislation to assure the independence of the decision-making process or to preserve a multi-member body to make these decisions?

The Subcommittee intends to conduct hearings on the essential air service program in the spring of 1983. Therefore, it would appreciate submission of the report by March 31, 1983.

Warmest regards,

Nancy

Nancy Landon Kassebaum
Chairman
Aviation Subcommittee